Advanced Education and Technology

Public Post-Secondary Institutions Audited Financial Statements

Public Colleges and Technical Institutes
for the year ended June 30, 2006

Universities and Banff Centre for Continuing Education
for the year ended March 31, 2007

Alberta

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Public Post-Secondary Institutions
Audited Financial Statements

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ALBERTA COLLEGE OF ART AND DESIGN

FINANCIAL STATEMENTS

JUNE 30, 2006

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AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Alberta College of Art and Design

I have audited the statement of financial position of Alberta College of Art and Design as at June 30, 2006 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred Dunn FCA
Auditor General

Edmonton, Alberta
October 6, 2006

ALBERTA COLLEGE OF ART AND DESIGN
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2006

	2006	2005 (As restated, Note 21)
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 5 425 519	$ 4 935 046
Accounts receivable and prepaid expenses	362 400	240 626
Inventories	521 117	547 983
	6 309 036	5 723 655
Non-current:		
Cash and investments (Note 3)	2 690 055	2 779 878
Capital contributions receivable (Note 19)	861 182	746 182
Capital assets (Note 5)	5 453 649	5 857 499
	$ 15 313 922	$ 15 107 214
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable	$ 595 183	$ 280 246
Obligation under capital lease (Note 7)	17 496	-
Unearned tuition fees	374 265	195 041
Deferred contributions (Note 8)	1 093 904	1 269 088
Accrued vacation	747 163	672 984
Employee future benefits (Note 16)	114 202	245 048
	2 942 213	2 662 407
Non-current:		
Obligation under capital lease (Note 7)	56 690	-
Employee future benefits (Note 16)	77 464	95 204
Unamortized deferred capital contributions (Note 10)	4 650 291	5 320 283
Deferred capital contributions (Note 9)	1 319 368	1 274 439
	9 046 026	9 352 333
Net assets:		
Unrestricted	1 851 291	1 723 421
Internally restricted (Note 11)	1 827 993	1 652 623
Invested in capital assets	729 172	537 216
	4 408 456	3 913 260
Endowments (Note 12)	1 859 440	1 841 621
	6 267 896	5 754 881
	$ 15 313 922	$ 15 107 214

The accompanying notes are part of these financial statements

ALBERTA COLLEGE OF ART AND DESIGN
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 17)	Actual	Actual (As restated, Note 21)
Revenue:			
Grants (Note 13)	$ 9 156 101	$ 9 738 383	$ 8 979 014
Tuition fees	4 346 690	4 194 134	3 963 976
Extended studies fees	786 480	801 798	826 820
Bookstore sales	746 000	733 998	759 027
Sales, rentals and services	180 000	204 479	144 566
Donations	346 120	300 624	880 138
Scholarships	205 000	159 021	83 152
Investment income (Note 4)	259 750	299 930	194 057
Earned capital contributions (Note10)	757 000	714 251	764 603
	16 783 141	17 146 618	16 595 353
Expense (Note 14):			
Salaries and benefits (Note 15)	10 748 813	10 366 597	10 014 291
Supplies and services	4 182 720	4 166 782	3 714 941
Bookstore - cost of sales	449 696	404 061	453 253
Fundraising projects	323 430	547 488	857 366
Scholarships	97 328	217 039	126 976
Loss on disposal of capital assets	-	1 310	3 849
Amortization of capital assets	882 000	948 145	946 191
	16 683 987	16 651 422	16 116 867
Excess of revenue over expense, for the year	$ 99 154	$ 495 196	$ 478 486

The accompanying notes are part of these financial statements

ALBERTA COLLEGE OF ART AND DESIGN
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	2006					2005
	Unrestricted Net Assets	Internally Restricted Net Assets (Note 11)	Investment in Capital Assets	Endowments (Note 12)	Total Net Assets	Total Net Assets (As restated, Note 21)
Excess of revenue over expense	$ 495 196	$ -	$ -	$ -	$ 495 196	$ 478 486
Transfer to internally restricted, net (Note 11)	(175 370)	175 370	-	-	-	-
Endowment contributions and capitalized interest (Note 12)		-	-	17 819	17 819	51 199
Internally funded:						
Purchase of capital assets	(403 698)	-	403 698	-	-	-
Repayment of obligation under capital lease	(16 840)	-	16 840	-	-	-
Amortization of capital assets	235 302	-	(235 302)	-	-	-
Donated artwork	(6 720)	-	6 720	-	-	-
Increase in net assets	127 870	175 370	191 956	17 819	513 015	529 685
Balance, beginning of year	1 723 421	1 652 623	537 216	1 841 621	5 754 881	5 225 196
Balance, end of year	$ 1 851 291	$ 1 827 993	$ 729 172	$ 1 859 440	$ 6 267 896	$ 5 754 881

The accompanying notes are part of these financial statements

ALBERTA COLLEGE OF ART AND DESIGN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005 (As restated, Note 21)
Operating activities:		
Excess of revenue over expense	$ 495 196	$ 478 486
Non-cash transactions:		
Earned capital contributions (Note 10)	(714 251)	(764 603)
Amortization of capital assets	948 145	946 191
Loss on disposal of capital assets	1 310	3 849
	730 400	663 923
Changes in non-cash working capital (Note 18)	167 402	364 487
Cash generated from operating activities	897 802	1 028 410
Investing activities:		
Purchase of capital assets:		
Internally funded	(403 698)	(266 300)
Externally funded	(44 259)	(9 220)
Debt funded	(91 026)	-
Donated artwork	(6 720)	(7 155)
Proceeds on disposal of capital assets	98	154
Increase in non-current cash and investments	89 823	196 113
Decrease in employee future benefits	(17 740)	(2 732)
Cash used in investing activities	(473 522)	(89 140)
Financing activities:		
Increase in capital contributions receivable	(115 000)	(134 001)
Capital contributions received, net of transfers (Note 9)	89 188	(104 092)
Long term lease	91 026	-
Payment on capital lease	(16 840)	-
Increase in endowments, net	17 819	51 199
Cash provided from (used in) financing activities	66 193	(186 894)
Net increase in cash and cash equivalents	490 473	752 376
Cash and cash equivalents, beginning of year	4 935 046	4 182 670
Cash and cash equivalents, end of year	$ 5 425 519	$ 4 935 046

The accompanying notes are part of these financial statements

ALBERTA COLLEGE OF ART AND DESIGN

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

Note 1 Authority and Purpose

The Alberta College of Art and Design ("the College") operates under the authority of the *Post Secondary Learning Act*, Statutes of Alberta 2003, Chapter P-19.5. The College is a registered charity and is exempt from payment of income tax.

The College is a public institution for education in visual arts, design and digital media, that delivers both post-secondary degree and diploma programs, and adult and children's continuing education programming.

The College promotes cultural and artistic awareness in the College and the community through art exhibitions, public lecture programs and its collection of visual art and library resources.

Note 2 Summary of Significant Accounting Policies

a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates which may vary from actual results. The following accounting policies and reporting practices are considered significant.

b) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at the lower of cost and replacement value. Cost is determined using the first in, first out method.

c) Investments

Investments are recorded at cost. Gains are recognized at realization. Losses are recognized at realization or when there is an other than temporary decline in the value of an investment.

Note 2 Summary of Significant Accounting Policies (continued)

d) Capital Assets

The land and building which house the College are owned by the Southern Alberta Institute of Technology (the "Institute") and are occupied by the College under a facility license granted by the Institute. The term of the license is through a renewable contractual agreement between the College and the Institute determined at the pleasure of the Minister of Advanced Education.

The facility license providing the right to use the building has been recorded as an asset at fair value at the time the license was granted. Fair value is estimated as the building's amortized replacement cost based on an independent appraisal as at April 1982.

Subsequent additions to the facility are recorded as leasehold improvements at cost.

Furnishings and equipment are recorded at cost, except for donated assets which are recorded at fair value.

Capital assets, except for the artwork collection, are amortized on a straight-line basis over the following periods:

Facility license	28 years
Leasehold improvements	remaining life of the building
Furniture and equipment	5 years
Computer Systems	10 years

Assets under capital lease are amortized on a basis that is consistent with the above.

The artwork collection is made up of numerous pieces of art that are held for display in the College and used for educational purposes. The pieces in the collection are recorded at the purchase price or at the appraised value at the time of donation and are not amortized.

e) Revenue Recognition

Unrestricted contributions and investment income are recognized in the period when receivable.

Amounts received for fees and sale of goods and services are recognized as revenue at the time the goods are delivered or the services are provided.

Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Note 2 Summary of Significant Accounting Policies (continued)

e) Revenue Recognition (continued)

Externally restricted non-capital contributions and interest are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributor.

Externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property.

Externally restricted capital contributions and interest are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing externally funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

f) Employee Future Benefits

The College participates with other employers in the Local Authorities Pension Plan (the "Pension Plan"). This Pension Plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees based on their years of service and earnings. Along with the Local Authorities Plan, the President is also provided with an unfunded pension account which is held by the College. The President is entitled to a payment of the balance of this account plus accrued interest upon resignation, termination or end of employment term.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year based on rates which are expected to provide for benefits payable under the Local Authorities Pension Plan. The College's portion of the pension plan's surplus or deficit is not recorded by the College.

The College's Board of Governors has approved early retirement and voluntary severance plans which provide employees leaving the employment of the College under specific conditions with bridge payments, lump sum payments in lieu of benefits or continued benefits for specific periods. The bridge payments, lump sum benefit payments and liabilities for future benefit payments are recorded by the College in the year the retirement application is approved.

Note 2 Summary of Significant Accounting Policies (continued)

f) Employee Future Benefits (continued)

The College pays or shares the premiums for certain benefits for employees on long term disability. The present value of the estimated costs of these premiums are recorded at the time the College becomes obligated under the plan.

g) Financial Instruments

The carrying value of cash, receivables and payables are considered to approximate fair value unless otherwise disclosed.

h) Credit, Interest Rate and Market Risk

The College's accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

Interest rate risk is the risk to the College's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates.

Market risk is the risk to the College's earnings that arises from the fluctuations and degree of volatility in the market value of its long-term investments.

Note 3 Cash, Cash Equivalents and Investments, Current and Non-Current

The Board of Governors, through its Finance Committee monitors the performance of the investment portfolio. Under the investment policy, the prime objectives of the investment fund are the generation of income, conservation of capital and growth of capital. The prime constraints that guide the investment policy are risk aversion and liquidity.

Realized return includes interest income and gains and losses on disposals of investments. In 2006, the cash, cash equivalents and investments obtained a realized return of 3.90% (2005 – 3.05%).

Investments are currently held as money market, bond and equity pooled funds managed through an investment advisor. Cash, cash equivalents and investments are summarized as follows:

	2006		2005	
	Cost	Market	Cost	Market
Cash	$ 5 320 991	$ 5 320 991	$ 5 075 347	$ 5 075 347
Pooled funds:				
Accrued income	50 710	50 710	36 718	36 718
Bond fund	992 207	1 047 174	963 436	1 067 554
Pooled equity fund	1 751 666	1 955 044	1 639 423	1 816 884
Total cash and investments	8 115 574	$ 8 373 919	7 714 924	$ 7 996 503
Held as non-current assets	2 690 055		2 779 878	
Held as current assets	$ 5 425 519		$ 4 935 046	

Note 3 Cash, Cash Equivalents and Investments, Current and Non-Current (continued)

The Bond Fund consists of Canadian government and corporate bonds with an average term to maturity of 8.8 years (2005 – 8.6 years) and an average yield to maturity of 4.81% (2005 – 3.70%). Bonds are rated at a minimum level of BBB with 53% of the Fund rated as AAA.

Bond maturities are as follows:

	2006	2005
Under 1 year	2 %	2 %
1-5 years	44	48
5-10 years	27	26
10-20 years	2	2
Over 20 years	25	22
	100 %	100 %

Bonds are outstanding by the following types of issuers:

	2006	2005
Federal	46%	47 %
Provincial	19	17
Municipal	5	6
Corporate	30	30
	100 %	100 %

The Pooled Equity Fund is a balanced fund of bond and equity investments. During 2006 the Pooled Equity Fund earned 3.42% (2005 – 2.67%).

The Pooled Equity Fund held the following types of investments at June 30:

	2006	2005
Canadian Short and Long-term bonds	36%	37 %
Canadian Equities	33	35
United States Equities	13	12
International Equities	18	16
	100 %	100 %

Note 3 Cash, Cash Equivalents and Investments, Current and Non-Current (continued)

Cash and investments held as non-current represent funds not available for current operations.

	2006	2005
Endowments (Note 12)	$ 1 859 440	$ 1 841 621
Deferred capital contributions (Note 9)	1 319 368	1 274 439
Less funds held by SAIT (Note 19)	(861 182)	(746 182)
Internally restricted for capital (Note 11)	372 429	410 000
	$ 2 690 055	$ 2 779 878

Note 4 Investment Income

	2006	2005
Investment income	$ 299 930	$ 194 057
Amount capitalized to endowments (Note 12)	29 280	33 597
Deferred contributions, net (Note 8)	25 823	46 378
Total investment income earned	$ 355 033	$ 274 032

Note 5 Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Facility license	$ 12 207 000	$ 9 155 413	$ 3 051 587	$ 3 487 529
Furniture and equipment	4 316 502	3 600 897	715 605	515 788
Leasehold improvements	3 027 936	1 762 646	1 265 290	1 446 045
Computer systems	603 650	552 800	50 850	44 540
Art collection	370 317	-	370 317	363 597
	$ 20 525 405	$ 15 071 756	$ 5 453 649	$ 5 857 499

During the year, the College received donated assets of $6,720 (2005 - $7,155).

Included in Furniture and Equipment, at June 30, 2006, the College had assets under capital lease with a cost of $91,026 (2005-$0) and accumulated amortization of $18,205 (2005-$0).

Note 6 Contractual Obligations

The College leases office equipment under operating leases that expire on various dates to 2009. Future minimum lease payments are as follows:

2007	$ 2,511
2008	2,511
2009	628
	$ 5,650

Note 7 Lease Obligation

The College has entered into a capital lease with an interest rate of 3.90%:

	2006	2005
Capital lease obligation	$ 74 186	$ -
Less: current portion	(17 496)	-
Non-current capital lease obligation	$ 56 690	$ -

The minimum annual payments under the capital lease obligation are as follows:

	2006	2005
2006-2007	$ 19 624	$ -
2007-2008	19 624	-
2008-2009	19 624	-
2009-2010	19 624	-
Total minimum lease payments	78 496	$ -
Less: amounts representing interest	(4 310)	-
Capital lease obligation	$ 74 186	$ -

During the year, interest on the capital lease obligation amounting to $2,784 (2005 - $0) has been charged to expense.

Note 8 Deferred Contributions

Deferred contributions represent unspent contributions externally restricted for non-capital purposes.

	2006	2005 (As restated, Note 21)
Contributions received during the year:		
Grants	$1 231 933	$ 1 090 834
Donations	422 122	1 268 560
Restricted investment income	87 838	100 792
	1 741 893	2 460 186
Transferred (to) from:		
Deferred capital contributions (Note 9)	(25 049)	104 092
	1 716 844	2 564 278
Transferred to revenue:		
Grants	(1 370 417)	(1 128 344)
Donations	(300 575)	(855 023)
Scholarships	(159 021)	(83 152)
Investment income	(62 015)	(54 414)
	(1 892 028)	(2 120 933)
(Decrease) increase during the year	(175 184)	443 345
Deferred contributions, beginning of year	1 269 088	825 743
Deferred contributions, end of year	$1 093 904	$ 1 269 088
The balance consists of funds restricted for:		
Scholarships and bursaries	$ 540 451	$ 593 120
Other non-capital projects	553 453	675 968
	$1 093 904	$ 1 269 088

Note 9 Deferred Capital Contributions

Deferred capital contributions represent unspent funds externally restricted for capital purposes.

	2006	2005
Capital contributions received during the year:		
Grants	$ 64 139	$ -
Transferred from (to) deferred contributions (Note 8)	25 049	(104 092)
Increase (decrease) during the year	89 188	(104 092)
Transferred to:		
Unamortized deferred capital contributions (Note 10)	(44 259)	(9 220)
Increase (decrease) during the year	44 929	(113 312)
Deferred capital contributions, beginning of year	1 274 439	1 387 751
Deferred capital contributions, end of year	$1 319 368	$1 274 439

Note 10 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the externally funded portion of capital assets, which will be recognized as earned capital contributions in future periods. Changes in the unamortized deferred capital contributions balance are as follows:

	2006	2005
Balance at beginning of year	$ 5 320 283	$ 6 075 666
Add: transfers from deferred capital contributions (Note 9)	44 259	9 220
Less: amount earned and transferred to revenue	(714 251)	(764 603)
Balance at end of year	$ 4 650 291	$ 5 320 283

Note 11 Internally Restricted Net Assets

The Board of Governors has placed internal restrictions on net assets as follows:

	2006			
	Opening	Expended	Appropriations	Closing
Non capital:				
Human resource infrastructure	$ 300 000	$ 16 495	$ -	$ 283 505
Marketing, recruitment and promotion	43 919	-	-	43 919
Utilities	93 000	3 500	-	89 500
Health and safety program	50 000	10 000	50 000	90 000
Accreditation	100 000	-	-	100 000
Website development and maintenance	28 724	23 174	50 000	55 550
Community relations	150 000	-	-	150 000
Special initiatives	100 000	-	270 000	370 000
College expansion initiative	126 980	112 821	50 000	64 159
Centre for creative process	150 000	-	-	150 000
Institutional branding	50 000	41 069	-	8 931
Internationalization	50 000	-	-	50 000
	1 242 623	207 059	420 000	1 455 564
Capital:				
Equipment renewal plan	350 000	-	-	350 000
Administrative system applications	60 000	37 571	-	22 429
	410 000	37 571	-	372 429
	$1 652 623	$244 630	$ 420 000	$1 827 993

Note 12 Endowments

Endowments consist of restricted donations to the College and internal allocations by the Board of Governors, the principal of which is not to be spent. The investment earnings generated from the endowments must be used in accordance with the various purposes established by the donors or the Board.

	2006	2005
Balance at beginning of year	$ 1,841,621	$ 1,790,422
Donations received	15,945	17,602
Capitalized investment income (Note 4)	29,280	33,597
De-endowed	(27,406)	-
	17,819	51,199
Balance at end of year	$ 1,859,440	$ 1,841,621

Endowments comprise:

	2006	2005
External scholarships	$ 1,342,971	$ 1,334,439
Internal		
Operating	355,334	349,420
Scholarships	161,135	157,762
	$ 1,859,440	$ 1,841,621

Note 13 Grants

	2006	2005 (As restated, Note 21)
Province of Alberta:		
Base operating	$ 8 941 749	$ 8 072 352
Access funding	-	310 780
Energy and enrolment grants	140 864	95 106
Community Lottery Board	-	903
Infrastructure renewal	165 861	271 127
Campus plan	198 609	1 391
Faculty/staff retention grant	-	16 228
AHRE systemic change initiative	5 234	-
Performance funding	116 011	88 796
Curriculum funding	6 903	15 494
Stirring culture	18 000	-
Art in motion	-	7 042
Marion Nicoll Gallery	20 000	-
Illingworth Kerr Gallery	25 000	-
Power of creativity alumni profiles	238	-
AHRE step/learning & resource centre grants	21 151	18 416
Human resources grants	3 686	34
Other	-	1 954
Total Provincial Grants	9 663 306	8 899 623
Other:		
Canada Council	900	-
Indirect cost program	33 461	34 903
SSHRC	40 716	44 488
	$ 9 738 383	$ 8 979 014

Note 14 Expense by Function

	2006	2005
Expense:		
Instruction	$ 6 222 988	$ 6 174 033
Institutional support	4 345 295	4 254 254
Academic support	2 866 698	2 655 006
Amortization of capital assets	948 145	946 191
Student services	1 218 125	1 062 862
Bookstore	684 392	729 045
Minor capital projects	364 469	291 627
Loss on disposal of capital assets	1 310	3 849
	$ 16 651 422	$ 16 116 867

Instruction encompasses all educational and instructional programs, including credit programming and continuing education. Academic support includes all activities that directly support instruction, including Library, Woodshop, Gallery and Academic Administration. Student services include all activities or services provided to students.

Institutional support includes all activities that provide institution-wide administrative and clerical support to institutional operations as well as college fundraising, communications and development expense. A significant component of fundraising and development expenses is a biannual major fundraising event, the total cost of which is included in institutional support costs.

Bookstore includes cost of sales and direct bookstore operations costs. Direct salary costs incurred for the College bookstore include support for college wide purchase, receipt and distribution of all materials for instructional, operational and retail purposes.

Note 15 Salaries and Benefits

Directive 12/98 (amended July 6, 2004) from the Treasury Board of the Province of Alberta requires the College to disclose certain salaries and benefits. Those salaries and benefits are as follows:

	2006				2005
	Base Salary (1)	Other Cash Benefits (2)	Other Non-cash Benefits (3)	Total	Total
Board of Governors					
Chair	$ -	$ -	$ -	$ -	$ -
Board Members (9)	-	961	-	961	457
President (4)	174,900	24,874	48,997	248,771	195,215
Vice President Academic (4)	112,809	-	17,924	130,733	65,022
Chief Operating Officer (5)	72,890	57,237	7,264	137,391	169,300
Vice President Finance (6)	43,205	10,074	10,537	63,816	-
Vice President External Affairs (7)	61,884	14,786	11,364	88,034	116,745
Director Student Services (8)	89,831	1,331	16,256	107,418	108,647
	$ 555,519	$ 109,263	$ 112,342	$ 777,124	$ 655,386

1. Base Salary includes pensionable base pay and retroactive pay increases.
2. Other cash benefits include honoraria, housing allowance, vehicle allowance, bonuses, and vacation payouts.
3. Other non-cash benefits and allowances include the employer's share of all employee benefits and contributions or payments made on behalf of employees including Local Authorities Pension, employment insurance, Canada Pension Plan, health care, extended health, vision and dental coverage, group life insurance, accidental disability and dismemberment, workers' compensation, employee assistance, and the executive supplemental pension account for the President.
4. Comparative totals for 2005 include the following periods of employment which were less than a full fiscal year:
    - The President commenced employment at the College on August 5, 2004.
    - The Vice President Academic commenced employment at the College on January 4, 2005.

Note 15 Salaries and Benefits (continued)

5. The Chief Operating Officer position was vacated by the retirement of the incumbent effective December 31, 2005. However, effective May 24, 2006 he continues under contract to be responsible for this function. Comparative total salary and benefit figures for 2005 of the Chief Operating Officer include a supplement for duties performed in the President's position which was vacant from November 1, 2003 to August 4, 2004.
6. The Vice President Finance position was occupied for six months during the 2006 fiscal year. In the prior year, this function was fulfilled by the Chief Operating Officer position.
7. The Vice President External Affairs position was vacated in February 2006. As at June 30, 2006, this position remains open.
8. The Director Student Services includes a supplement for duties performed in support of the vacant Senior Academic Officer position and the Academic Executive during the period from July 1, 2004 to December 31, 2004.
9. The majority of College Board members do not accept honoraria from the College. The value of the honoraria not accepted is allocated to special funds shown in the financial statements as deferred contributions.

Note 16 Employee Future Benefits

The College Board of Governors has provided provisions for early retirement plans for College employees. The College also supplements the pension benefits earned by the president through contributions to a supplementary plan. The College is also required, under the terms of its long-term disability plan, to continue payment of the employer's portion of health benefits and Local Authorities Pension Plan pension premiums while an employee is on long-term disability. The College's liability under these plans included in the 2006 financial statements is $191,666 (2005 - $340,252).

The college participates in a multiemployer pension plan, the Local Authorities Pension Plan. The expense for this plan is $533,310 for the year ended June 30, 2006 (2005 - $463,310).

At December 31, 2005, the Local Authorities Pension Plan reported a deficiency of $863,558,000 (2004 – $1,288,924,000). Effective January 1, 2006, a combined increase of .77% was applied to the total pensionable salary for employers' and members combined.

Note 17 Budget

The budget was approved by the Board of Governors in May 2005 and the revised budget was approved February 2006.

	Original Budget	Revised Budget
Revenue:		
Grants	$ 9 156 343	$ 9 156 101
Tuition fees	4 346 690	4 346 690
Extended studies fees	954 480	786 480
Bookstore sales	746 000	746 000
Sales, rentals and services	180 000	180 000
Donations	346 120	346 120
Scholarships	205 000	205 000
Investment income	259 750	259 750
Earned capital contributions	757 000	757 000
	16 951 383	16 783 141
Expense:		
Salaries and benefits	11 169 878	10 748 813
Supplies and services	4 028 225	4 182 720
Bookstore - cost of sales	449 696	449 696
Fundraising projects	323 430	323 430
Scholarships	97 328	97 328
Loss on disposal of capital assets	-	-
Amortization of capital assets	882 000	882 000
	16 950 557	16 683 987
Excess of revenue over expense	$ 826	$ 99 154

Note 18 Changes in Non-Cash Working Capital

	2006	2005
Increase in accounts receivable and prepaid expenses	$ (121 774)	$ (38 199)
Decrease (increase) in inventories	26 866	(14 062)
Increase (decrease) in accounts payable	314 937	(42 934)
Increase in unearned tuition fees	179 224	4 485
(Decrease) increase in deferred contributions	(175 184)	443 347
Increase (decrease) in accrued vacation	74 179	(39 630)
(Decrease) increase in employee future benefits	(130 846)	51 480
	$ 167 402	$ 364 487

Note 19 Related Party Transactions

a) Province of Alberta

The College is a Provincial Corporation as all members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the College and the Province are disclosed as follows:

	2006		2005	
	Revenue	Deferred Contributions and UDCC*	Revenue	Deferred Contributions and UDCC*
Operating grants	$ 8 941 749	$ -	$ 8 072 352	$ -
Access funding	-	71 063	310 780	184 181
Infrastructure renewal grants	115 000	1 388 113	27 000	1 517 240
Campus plan	198 609	-	1 391	198 609
Performance funding	116 011	-	88 796	-
Energy and enrolment growth	140 864	-	95 106	-
Faculty/staff retention	-	-	-	16 228
AHRE step/learning & resource centre grants	21 151	-	18 416	-
Community Lottery Board	-	1 326	-	7 392
Other	68 234	58 764	1 954	53 589
Alberta Opportunity Bursary		5 936	-	5 936
Human Resources grants		3 686	-	3 720
Total from deferred contributions	61 688	(61 688)	283 828	(283 828)
	$ 9 663 306	$ 1 467 200	$ 8 899 623	$ 1 703 067

* Unamortized deferred capital contributions

b) Southern Alberta Institute of Technology

The land and building which house the College are owned by the Southern Alberta Institute of Technology (the "Institute") and are occupied by the College under a facility license granted by the Institute and continuing occupancy at the pleasure of the Minister of Advanced Education. The College and the Institute are parties to letters of agreement for the provision of utilities, maintenance and systems support. Amounts paid or payable to the Institute in 2006 for these purposes totalled $1,066,898 (2005 - $1,071,610).

Note 19 Related Party Transactions (continued)

The Institute received capital grants of $115,000 (2005 - $134,000) from the province that are designated for the building occupied by the College. In the last two years no funds were expended for minor capital renovations to the building. The Institute still holds $861,182 (2005 - $746,182) of government grant funds that are to be used for the building envelope and utilities infrastructure. The amount has been recorded as a capital contribution receivable. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair value.

c) Bow Valley College

The College and Bow Valley College collaborate in offering Artstream, a base funded program, which provides academic upgrading and foundation art courses to students in preparation for entry into the College's diploma or degree programs. Amounts paid to Bow Valley College in 2006 for these purposes totalled $14,213 (2005 - $2,130). These transactions were entered into on the same business terms as with non-related parties and are recorded at fair value.

d) Other

Transactions between the College and members of the Board are recorded at fair value.

Note 20 Certain June 30, 2005 figures have been reclassified to conform to current year presentation.

Note 21 Correction of Error

(a) During the prior year, the College recorded expenditures relating to a restricted grant but failed to recognize the related revenues. This error has now been corrected in the financial statements.

(b) During the past two years, the College recorded restricted grants as deferred contributions when grant restrictions were fully met. These grants should have been recorded to revenues upon receipt. All such transactions have now been corrected in the financial statements.

These changes have been applied retroactively with restatement of comparative numbers. The impact on the prior year financial statements as a result of the correction on errors is as follows:

	2005		
	As Previously Reported	Correction of Error	As Restated
Statement of Financial Position Increase (decrease) in:			
Deferred contributions	$ 1 588 963	$ (319 875)	$ 1 269 088
Unrestricted net assets	$ 1 403 546	$ 319 875	$ 1 723 421
Statement of Operations Increase in:			
Grants	$ 8 776 770	$ 202 244	$ 8 979 014
Increase in Excess of Revenue Over Expense	$ 276 242	$ 202 244	$ 478 486
Statement of Changes in Net Assets Increase in:			
Balance, beginning of year	$ 5 107 565	$ 117 631	$ 5 225 196

Note 22 Approval of Financial Statements

These financial statements were approved by the Board of Governors at the October 30, 2006 meeting of the Board.

BOW VALLEY COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2006

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Bow Valley College

I have audited the statement of financial position of the Bow Valley College as at June 30, 2006 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 29, 2006

BOW VALLEY COLLEGE

STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2006

	2006	2005
Assets		
Current:		
Cash (Note 4)	$ 5,946,199	$ 3,457,252
Accounts receivable	2,425,165	2,114,288
Inventories (Note 5)	756,939	629,788
Prepaid expenses	214,263	137,851
	9,342,566	6,339,179
Non-current cash and investments (Note 4)	22,502,112	11,834,864
Capital assets (Note 7)	22,665,457	21,711,212
	$ 54,510,135	$ 39,885,255
Liabilities and Net Assets		
Current:		
Accrued vacation pay	$ 1,816,895	$ 1,724,841
Accounts payable and accrued liabilities	1,865,346	1,132,731
Unearned revenue (Note 13)	1,468,559	1,814,263
Deferred contributions (Note 8)	1,554,995	787,449
Lease obligation (Note 11)	7,548	173,924
	6,713,343	5,633,208
Deferred capital contributions (Note 9)	10,452,613	3,086,391
Unamortized deferred capital contributions (Note 10)	18,755,937	17,146,771
Long-term lease obligation (Note 11)	7,744	15,807
	35,929,637	25,882,177
Net assets:		
Unrestricted	2,615,415	879,895
Internally restricted (Note 25)	11,363,744	8,161,237
Invested in capital assets (Note 24)	3,894,228	4,374,710
Endowments (Note 3)	707,111	587,236
	18,580,498	14,003,078
	$ 54,510,135	$ 39,885,255

The accompanying notes are part of these financial statements.

BOW VALLEY COLLEGE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Revenue:		
Provincial government contributions and grants (Note 14)	$ 22,727,979	$ 17,660,728
Tuition fees	11,209,429	10,504,481
Entrepreneurial contracts and other grants (Note 15)	9,588,631	8,803,182
Ancillary and other services (Note 16)	1,491,284	1,371,977
Investment income (Note 17)	509,511	333,823
Donations and contributions	336,800	380,475
Amortization of deferred capital contributions (Note 10)	1,402,320	1,353,789
	47,265,954	40,408,455
Expense:		
Compensation and benefits	29,510,040	26,853,695
Supplies and services (Note 19)	9,930,077	8,710,428
Amortization of capital assets	2,305,202	2,276,958
Cost of goods sold (Note 6)	868,264	834,311
Scholarship and bursaries	194,539	170,360
Loss on disposal of capital assets	287	465
	42,808,409	38,846,217
Excess of revenue over expense	$ 4,457,545	$ 1,562,238

The accompanying notes are part of these financial statements.

BOW VALLEY COLLEGE

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	2006					2005
	Unrestricted	Internally Restricted (Note 25)	Invested in Capital Assets (Note 24)	Endowments	Total	Total
Excess of revenue over expense	$ 4,457,545	$ -	$ -	$ -	$ 4,457,545	$ 1,562,238
Net assets restricted by the Board:						
Facilities improvement	(2,000,000)	2,000,000	-	-	-	-
Special initiatives fund	(1,500,000)	1,500,000	-	-	-	-
Technology requirements	300,000	(300,000)	-	-	-	-
Board of Governors' scholarship	(2,507)	2,507	-	-	-	-
Acquisition of internally funded capital assets	(248,248)		248,248			
Net book value of disposed assets - internally funded	63	-	(63)	-	-	-
Amortization of internally funded capital assets	903,106	-	(903,106)	-	-	-
Repayment of obligation under capital lease	(174,439)	-	174,439	-	-	-
Contributions to endowment	-	-	-	119,875	119,875	177,505
Increase (decrease) in net assets	1,735,520	3,202,507	(480,482)	119,875	4,577,420	1,739,743
Net assets, beginning of year	879,895	8,161,237	4,374,710	587,236	14,003,078	12,263,335
Net assets, end of year	$ 2,615,415	$ 11,363,744	$ 3,894,228	$ 707,111	$ 18,580,498	$ 14,003,078

The accompanying notes are part of these financial statements.

BOW VALLEY COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Operating activities:		
Excess of revenue over expense	$ 4,457,545	$ 1,562,238
Non-cash transactions:		
Amortization of deferred capital contributions (Note 10)	(1,402,320)	(1,353,789)
Amortization of capital assets - externally funded	1,402,096	1,353,789
Amortization of capital assets - internally funded	903,106	923,169
Loss on disposal of capital assets	287	465
	5,360,714	2,485,872
Net change in non-cash working capital (Note 23)	732,071	(140,371)
Cash generated from operating activities	6,092,785	2,345,501
Investing activities:		
Increase in non-current cash and cash equivalents	(10,667,248)	(326,811)
Acquisition of capital assets - externally funded	(3,011,486)	(836,613)
Acquisition of capital assets - internally funded	(248,248)	(959,634)
Acquisition of capital assets - financing	-	(42,889)
Proceeds on disposal of capital assets	-	194
Cash applied to investing activities	(13,926,982)	(2,165,753)
Financing activities:		
Net capital contributions received (Note 9)	10,377,708	(84,930)
Payment on capital leases	(174,439)	(158,660)
Long-term lease financing	-	42,889
Endowment contributions	119,875	177,505
Cash generated from (applied to) financing activities	10,323,144	(23,196)
Increase in cash	2,488,947	156,552
Cash and cash equivalents, at beginning of year	3,457,252	3,300,700
Cash and cash equivalents, at end of year	$ 5,946,199	$ 3,457,252

The accompanying notes are part of these financial statements.

Note 1 Authority and Purpose

Bow Valley College operates under the authority of the Post Secondary Learning Act, Statutes of Alberta 2003, Chapter P-19.5.

The College serves primarily the City of Calgary and communities in Southern Alberta. The College provides instruction and training to assist adult learners through academic upgrading programs; career entry training in business, health, and service industries; and English as a second language programs. The College maintains a special interest in providing programs and services to aboriginal communities.

The College is a registered charity and is exempt from payment of income tax under the Income Tax Act.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates that may vary from actual results. The following accounting policies are considered significant:

(a) Revenue Recognition

Unrestricted Contributions

Unrestricted operating grants and other contributions are recognized as revenue in the period receivable. Operating grants received for use in a future period are deferred until that future period.

Restricted Contributions

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred.

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Contributions for capital assets that will be amortized are transferred to unamortized deferred capital contributions in the period the asset is acquired.

Unamortized deferred capital contributions are recognized in revenue as amortization of deferred capital contributions in the period in which the related capital assets are amortized. Unamortized deferred capital contributions relating to capital assets disposed of are recognized as revenue in the period of disposal, provided that all restrictions have been complied with.

Externally restricted contributions for endowment purposes are not recognized as revenue, but are recorded as direct increases in net assets.

Investment Income

Unrestricted investment income is recognized in the year it is earned.

Investment income subject to external restrictions is, depending on the nature of the restriction, recorded as direct increases to net assets, or is deferred and recognized as revenue in the period the related expenses are incurred.

Program Delivery

Amounts received for tuition fees and sale of goods and services are recognized as revenue in the period in which the programs, goods or services are provided.

Revenue from contract programs are determined on the percentage of completion method. Provision is made for all anticipated losses as soon as they become evident.

Pledges

Pledges are recognized as revenue when collected.

(b) Investments

Investments are recorded at cost. Gains and losses on investments are recognized when an investment is sold or when there is an other than temporary decline in the value of an investment.

(c) Capital Assets

Capital asset acquisitions are recorded at cost, except donated assets, which are recorded at fair value, when fair value is reasonably determined.

Capital assets are amortized on a straight-line basis over the following estimated average useful lives:

Building	22 years
Furniture and equipment	10 years
Computer equipment and related software	3-5 years
Educational resources	2 years
Intellectual property	2 years

Leasehold and site improvements are amortized over the lower of the expected useful life of the related buildings or the remaining term of the lease.

Assets under capital leases are amortized on a basis that is consistent with the above.

Capital assets under construction are not amortized until construction is complete and the assets are ready for productive use.

(d) Inventories

Inventories that are comprised of goods for resale are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Inventories held for consumption are valued at the lower of cost and replacement value.

Note 2 Significant Accounting Policies and Reporting Practices (cont.)

(e) Employee Future Benefits

The College participates in the Public Service Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP). These pension plans are multi-employer defined benefit pension plans that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates, which are expected to provide for benefits payable under the pension plan. The College's portion of the pension plan's deficit or surplus is not recorded by the College.

(f) Financial Instruments

The College's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, accrued vacation pay and lease obligations.

The College is exposed to currency risk (the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates); interest rate risk (the risk that the value of a financial instrument will fluctuate due to changes in market interest rates); market risk (the risk that the value of a financial instrument will fluctuate as a result of changes in market prices) and normal credit risk as the College's accounts receivable are due from a diverse group of customers.

It is management's opinion that the College is not exposed to significant currency, interest, market or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value.

Note 3 Endowments

Endowments consist of externally restricted donations to the College, the principal of which is required to be maintained in perpetuity. The investment income from endowments must be used in accordance with the purpose established by the donor.

Note 4 Cash and Investments, and Non-current Cash

Cash funds are invested in a daily interest earnings account with a Canadian chartered bank. The rates earned during the year ranged from 1.50% to 3.25% (2005: 0.93% to 1.50%).

	2006	2005
Investments	$ 14,572,658	$ 11,539,696
Cash	13,875,653	3,752,420
Non-current	(22,502,112)	(11,834,864)
	$ 5,946,199	$ 3,457,252

Non-current cash and investments consist of amounts not available for current operations and include:

	2006	2005
Deferred capital contributions (Note 9)	$ 10,452,613	$ 3,086,391
Long-term internally restricted net assets (Note 25)	11,342,388	8,161,237
Endowments	707,111	587,236
	$ 22,502,112	$ 11,834,864

The College Board of Governors has approved an investment policy. The primary investment objectives are to preserve capital and achieve a growth rate beyond the rate of inflation.

	2006		2005	
	Cost	Market	Cost	Market
Money market investments	$ 6,488,150	$ 6,485,469	$ 11,539,696	$ 11,539,696
Bonds	5,986,195	5,878,711	-	-
Equities	2,098,313	2,098,990	-	-
	$ 14,572,658	$ 14,463,170	$ 11,539,696	$ 11,539,696

The effective yield on the money market investments ranged from 4.20% to 4.30%, bond investments ranged from 4.52% to 5.00%, and equities ranged from 1.50% to 3.15%. Bond investments have a maturity of up to 20 years.

Note 5 Inventories

	2006	2005
Books and educational materials	$ 418,196	$ 316,411
Artwork	232,332	232,332
Consumable supplies	106,411	81,045
	$ 756,939	$ 629,788

Note 6 Cost of Goods Sold

Cost of goods sold consists of books and educational materials as follows:

	2006	2005
Bookstore	$ 799,770	$ 795,843
Continuing Education	27,582	19,943
Test Of Workplace Essential Skills	40,912	18,525
	$ 868,264	$ 834,311

Note 7 Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	$19,739,323	$ 5,605,080	$14,134,243	$15,031,486
Campus expansion - work in progress	2,967,775	-	2,967,775	234,058
Land	2,305,697	-	2,305,697	2,305,697
Computer equipment and related software	5,769,945	5,169,340	600,605	1,078,943
Furniture and equipment	2,782,096	1,157,757	1,624,339	1,667,999
Leasehold and site improvements	2,349,585	1,318,542	1,031,043	1,369,050
Educational resources	118,388	116,633	1,755	-
Intellectual property	63,944	63,944	-	23,979
	$36,096,753	$ 13,431,296	$22,665,457	$21,711,212

Included in capital assets are items that have not been amortized as the work was not completed and the asset was not in use as of June 30.

	2006	2005
Campus expansion - work in progress	$ 2,967,775	$ 234,058
Computer equipment and related software	-	186,034

Included in computer equipment and related software are assets under capital leases with an original cost of $739,079 (2005 - $739,079) and accumulated amortization of $701,422 (2005 - $626,106).

Included in furniture and equipment are assets under capital leases with an original cost of $301,269 (2005 - $301,269) and accumulated amortization of $188,733 (2005 - $124,546).

The College also disposed of capital assets with an original cost of $191,153 (2005 - $8,525) and accumulated amortization of $190,866 (2005 - $7,866).

Note 8 Deferred Contributions

The deferred contributions balance represents amounts accounted for in accordance with the accounting policy described in Note 2 (a).

	2006	2005
Contributions received during the year:		
Conditional funding	$ 1,980,998	$ 1,695,507
Donations and contributions	834,960	333,528
Entrepreneurial contracts and other grants	355,866	151,255
	3,171,824	2,180,290
Transfers from:		
Deferred capital contributions (Note 9)	180,292	349,056
	3,352,116	2,529,346
Transferred to:		
Conditional funding (Note 14)	(2,108,978)	(2,251,891)
Donations and contributions	(297,441)	(293,949)
Entrepreneurial contracts and other grants	(178,151)	(194,762)
	(2,584,570)	(2,740,602)
Increase (decrease) during the year	767,546	(211,256)
Deferred contributions, beginning of year	787,449	998,705
Deferred contributions, end of year	$ 1,554,995	$ 787,449

Unspent amounts at the end of the year are restricted for the following purposes:

	2006	2005
Student Awards	$ 498,616	$ 240,858
Academic Foundations	361,677	247,046
English as a Second Language	292,337	59,778
Fund Development	217,088	-
Health Community Care	119,293	91,956
Learning Resource Services	56,909	107,279
Office of the Registrar	5,735	10,000
Business and Industry Training	2,600	4,200
Continuing Education	740	-
Facilities	-	26,332
	$ 1,554,995	$ 787,449

Note 9 Deferred Capital Contributions

	2006	2005
Contributions received during the year:		
Grant for college renovation project	$ 10,300,000	$ -
Grant for infrastructure maintenance program	218,000	46,000
Grant for practical nurse program expansion	40,000	-
Grant for leasehold improvements	-	214,240
Gift-in-kind	-	3,886
	10,558,000	264,126
Transferred to deferred contributions:		
Deferred contributions (Note 8)	(180,292)	(349,056)
	10,377,708	(84,930)
Transferred to: Unamortized deferred capital contributions (Note 10)		
College renovation project	(2,733,717)	(173,045)
Infrastructure maintenance program	(158,441)	(399,748)
Practical nurse program	(112,549)	(7,917)
Assistive technology program	(4,197)	(2,377)
Health services	(2,582)	(3,518)
Leasehold improvements	-	(214,240)
College general	-	(3,886)
Knowledge network	-	(31,882)
	(3,011,486)	(836,613)
Increase (decrease) during the year	7,366,222	(921,543)
Deferred capital contributions, beginning of year	3,086,391	4,007,934
	$ 10,452,613	$ 3,086,391

Unspent amounts at end of year are restricted for the following purposes:

	2006	2005
College renovation project	$ 10,384,887	$ 2,765,942
Practical nurse	40,000	278,505
Infrastructure maintenance program	24,162	18,025
Instructional related equipment	3,564	3,564
Knowledge network	-	11,882
Assistive technology	-	5,000
Health services	-	2,582
Community initiatives program	-	891
	$ 10,452,613	$ 3,086,391

Note 10 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the funded portion of capital assets which will be recognized in future periods. Changes in the unamortized deferred capital contributions balances are as follows:

	2006	2005
Balance at the beginning of year	$ 17,146,771	$ 17,663,947
Add: Purchase of capital assets (Note 9)	3,011,486	836,613
Less: Amortization of deferred capital contributions	(1,402,320)	(1,353,789)
	$ 18,755,937	$ 17,146,771

Note 11 Lease Obligation

The College has entered into capital leases with interest rates ranging from 8.40% to 8.89% (2005: 8.40% to 18.64%).

	2006	2005
Capital lease obligations	$ 15,292	$ 189,731
Less: current portion	7,548	173,924
	$ 7,744	$ 15,807

The minimum annual payments under capital lease obligations are as follows:

2006-2007	$ 9,315
2007-2008	8,476
Total minimum lease payments	$ 17,791
Less: Amounts representing interest	2,499
Capital lease obligations	$ 15,292

During the year, interest on capital lease obligations amounting to $5,500 (2005: $25,276) has been charged to expense.

Note 12 Contractual Obligations

a) Lease Commitments

Future minimum annual lease payments under operating leases are:

Fiscal year			
	2007	$	1,919,787
	2008	$	1,880,900
	2009	$	952,059
	2010	$	238,248
	2011	$	186,809
Thereafter		$	159,583

b) As at June 30, 2006, the College has commitments of approximately $98,202,440 for capital and expansion projects.

Note 13 Unearned Revenue

Unearned revenue is summarized as follows:

	2006	2005
Tuition fees	$ 1,387,382	$ 1,640,734
Contract programs	81,177	173,529
	$ 1,468,559	$ 1,814,263

Note 14 Provincial Government Contributions and Grants

	2006	2005
Provincial government contributions and grants consist of:		
General operating grant	$ 20,619,001	$ 15,408,837
Conditional funding, provincial (Note 8)	2,108,978	2,251,891
	$ 22,727,979	$ 17,660,728

Note 15 Entrepreneurial Contracts and Other Grants

Entrepreneurial contracts and other grants consist of:

	2006	2005
Government Contracts	$ 7,345,623	$ 7,197,203
Other agencies and private sector	2,243,008	1,605,979
	$ 9,588,631	$ 8,803,182

Note 16 Ancillary and Other Services

Ancillary and other services consist of:

	2006	2005
Ancillary Department	$ 1,275,570	$ 1,144,711
Academic Departments	109,766	103,639
Test of Workplace Essential Skills	68,726	77,189
Centre for Career Advancement	10,855	23,434
Other Sales	26,367	23,004
	$ 1,491,284	$ 1,371,977

Note 17 Investment Income

	2006	2005
Total investment income earned	$ 520,042	$ 345,068
Less transferred to deferred contributions	(10,531)	(11,245)
	$ 509,511	$ 333,823

Note 18 Pension Expense

Bow Valley College participates in two multi-employer pension plans, Public Services Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP). The expense for these plans was $1,434,161 for the year ended June 30, 2006 (2005 - $1,268,858). At December 31, 2005, the MEPP reported a deficiency of $165,895,000 (2004 - $268,101,000). At December 31, 2005, the PSPP reported a deficiency of $187,704,000 (2004 - $450,068,000).

Note 19 Supplies and Services

	2006	2005
Professional contracted services	$ 2,093,120	$ 1,592,024
Facility leases	1,893,843	1,746,667
Advertising	1,013,970	904,208
Maintenance and renovations	921,152	978,253
Instructional and office supplies	921,307	772,521
Utilities	549,325	562,281
Travel	542,487	435,205
Non-capital furniture and equipment	357,702	336,564
Telecommunications and rentals	245,731	207,853
Equipment leases	231,435	210,625
Computer costs	227,586	216,306
Freight and postage	189,273	152,879
Bank charges and lease interest	119,710	131,120
Memberships and subscriptions	100,550	74,018
Insurance	84,374	106,367
Other supplies and services	438,512	283,537
	$ 9,930,077	$ 8,710,428

Note 20 Related Parties

The College is a Provincial Corporation. The members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the College and the Province and closing balances are disclosed as follows:

2006

	Transactions				Closing Balances	
	Revenue	Unamortized Deferred Capital Contributions	Deferred Contributions and Deferred Capital Contributions	Unearned Revenue	Accounts Receivable	Accounts Payable
General operating grant	$20,619,001	$ -	$ -	$ -	$ -	$ -
Conditional Funding	2,108,978	3,004,707	7,741,179	11,404	81,355	-
	22,727,979	3,004,707	7,741,179	11,404	81,355	-
Contract programs	3,355,023	-	-	65,368	375,947	17,297
	$26,083,002	$ 3,004,707	$ 7,741,179	$ 76,772	$ 457,302	$ 17,297

2005

	Transactions				Closing Balances	
	Revenue	Unamortized Deferred Capital Contributions	Deferred Contributions and Deferred Capital Contributions	Unearned Revenue	Accounts Receivable	Accounts Payable
General operating grant	$15,408,837	$ -	$ -	$ -	$ -	$ -
Conditional Funding	2,251,891	612,592	(1,165,943)	-	84,073	-
	17,660,728	612,592	(1,165,943)	-	84,073	-
Contract programs	3,723,150	-	-	(48,831)	656,126	19,019
	$21,383,878	$ 612,592	$ (1,165,943)	$ (48,831)	$ 740,199	$ 19,019

During the year, Bow Valley College had business transactions with other public colleges, technical institutes and universities in Alberta. These transactions were at market prices on normal terms of purchase and sale.

Note 21 Salaries and Benefits

The salary and benefit disclosure is provided pursuant to Treasury Board Directive 12/98, (as amended July 6, 2004) and includes only the salaries and benefits of those individuals in the senior decision making group of the College.

	2006				2005
	Salary [1]	Other Cash Benefits [2]	Other Non-Cash Benefits [3]	Total	Total
Board of Governors [4]	$ -	$ 8,955	$ -	$ 8,955	$ 8,490
President and Chief Executive Officer	172,273	31,301	17,919	221,493	203,840
Vice President, Learning Services	128,000	20,360	24,437	172,797	141,964
Vice President, College Services	128,000	15,000	25,609	168,609	141,624
Vice President, External Relations	126,500	28,000	7,079	161,579	135,225
Director, Development and Partnerships	96,390	29,720	25,466	151,576	119,636
	$ 651,163	$ 133,336	$ 100,510	$ 885,009	$ 750,779

(1) Salary includes pensionable base pay.

(2) Other cash benefits include bonuses, vacation payouts, lump sum payments and honoraria.

(3) The College's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental death and dismemberment insurance, long and short term disability plan, Employment Insurance, Canada Pension Plan, Workers' Compensation, professional memberships, and tuition.

(4) The majority of the eleven College board members do not accept honoraria from the College. Instead, the value of the honoraria not accepted of $7,367 (2005: $8,070) was allocated to student scholarships.

Note 22 Budget

The College is required to submit a budget, approved by the Board of Governors of the College, to the Minister of Advanced Education for his approval. The 2005-2006 College Budget was approved by the Board of Governors on May 24, 2005.

Revenue:		
Provincial government contributions and grants	$	18,130,443
Tuition fees		12,536,284
Entrepreneurial contracts and other grants		9,221,030
Ancillary and other services		1,332,580
Investment income		330,000
Donations and contributions		261,250
Amortization of deferred capital contributions		1,349,000
		43,160,587
Expense:		
Compensation and benefits	$	27,543,528
Supplies and services		12,046,896
Amortization of capital assets		2,338,000
Cost of goods sold		985,127
Scholarships and bursaries		166,250
Loss on disposal of capital assets		-
		43,079,801
Excess of revenue over expense	$	80,786

Note 23 Changes in Non-Cash Working Capital

	2006	2005
(Increase) decrease in accounts receivable	$ (310,877)	$ 148,384
(Increase) in inventories	(127,151)	(61,973)
(Increase) in prepaid expenses	(76,412)	(35,163)
Increase in accrued vacation pay	92,054	49,015
Increase (decrease) in accounts payable and accrued liabilities	732,615	(257,829)
(Decrease) increase in unearned revenue	(345,704)	228,451
Increase (decrease) in deferred contributions	767,546	(211,256)
	$ 732,071	$ (140,371)

Note 24 Net Assets Invested in Capital Assets

	2006	2005
Capital assets at net book value	$ 22,665,457	$ 21,711,212
Financed by debt	(15,292)	(189,731)
Unamortized deferred capital contributions	(18,755,937)	(17,146,771)
	$ 3,894,228	$ 4,374,710

Note 25 Internally Restricted Net Assets

The Board of Governors has designated the following funds as restricted net assets:

	2005/2006					
	Opening Balance	Appropriations	Expended	Ending Balance	Short-Term	Long-Term
Facilities improvement	$ 7,055,000	$ 2,000,000	$ -	$ 9,055,000	$ -	$ 9,055,000
Special initiatives fund	-	1,500,000	-	1,500,000	-	1,500,000
Donation from estate	559,543	-	-	559,543	-	559,543
Technology requirements	300,000	-	(300,000)	-	-	-
Fund development	227,845	-	-	227,845	-	227,845
Board of Governors-Scholarship	18,849	7,367	(4,860)	21,356	21,356	-
	$ 8,161,237	$ 3,507,367	$ (304,860)	$ 11,363,744	$ 21,356	$ 11,342,388

Note 26 Pledges

In October 2001, the College embarked on a five-year $10,000,000 integrated fundraising campaign. As at June 30, 2006 outstanding pledges were $1,413,894 (2005: $659,520).

Note 27 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Grande Prairie Regional College

I have audited the consolidated statement of financial position of the Grande Prairie Regional College as at June 30, 2006 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred Dunn FCA
Auditor General

Edmonton, Alberta
October 15, 2006

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

	2006	2005
ASSETS		
Current		
Cash	$ 316,185	$ -
Accounts receivable	969,642	1,231,479
Inventories (Note 3)	541,514	539,486
Prepaid expenses	83,186	-
	1,910,527	1,770,965
Long-term investments (Note 4)	12,170,143	10,267,062
Capital assets (Note 5)	35,650,000	33,045,707
	$ 49,730,670	$ 45,083,734
LIABILITIES AND NET ASSETS		
Current		
Bank Indebtedness	$ -	$ 609,288
Accounts payable	1,976,535	1,226,760
Accrued vacation pay	1,499,996	1,291,173
Unearned revenue (Note 6)	406,651	260,013
Four-for-five Leave Plan (Note 7)	405,549	619,868
Deferred contributions (Note 8)	757,525	647,792
Obligation under capital lease (Note 9)	118,006	128,407
Long-term debt (Note 10)	90,330	36,000
	5,254,592	4,819,301
Non-current		
Obligation under capital lease (Note 9)	-	118,006
Long-term debt (Note 10)	3,009,377	776,000
Deferred capital contributions (Note 8)	3,436,955	538,188
Unamortized deferred capital contributions (Note 11)	26,829,488	28,115,507
	33,275,820	29,547,701
Net assets		
Endowments (Note 12)	2,900,097	2,896,692
Investment in capital assets	5,602,799	3,871,787
Internally restricted net assets (Note 13)	1,973,829	2,757,659
Unrestricted net assets	723,533	1,190,594
	11,200,258	10,716,732
	$ 49,730,670	$ 45,083,734

The accompanying notes are an integral part of these consolidated financial statements.

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 15)	Actual	Actual
Revenue			
Grants (Note 16)	$ 17,896,999	$ 18,936,473	$ 17,892,725
Tuition and related fees	7,390,717	6,700,333	6,647,366
Sales, rentals and services (Note 17)	2,720,793	3,435,731	3,242,742
Contract programs	1,243,587	1,048,315	1,049,335
Fund raising and donations	789,112	827,570	1,104,029
Investments	379,000	437,585	390,371
Gain on disposal of capital assets	-	1,619	6,148
	30,420,208	31,387,626	30,332,716
Amortization of deferred capital contributions (Note 11)	1,535,000	1,727,493	1,984,066
	31,955,208	33,115,119	32,316,782
Expense (Note 18)			
Salaries and benefits (Note 19)	20,882,071	20,211,398	19,458,619
Supplies and services	6,462,450	7,645,160	7,470,326
Amortization of capital assets	2,190,000	2,789,104	2,644,021
Utilities	902,663	864,678	812,083
Cost of goods sold	1,006,472	897,149	839,767
Scholarships and bursaries	192,000	227,509	225,510
	31,635,656	32,634,998	31,450,326
Excess of revenue over expense	$ 319,552	$ 480,121	$ 866,456

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2006

	2006					2005
	Endowments	Investment in Capital Assets	Internally Restricted Net Assets	Unrestricted Net Assets	Total	Total
Excess of revenue over expense	$ -	$ -	$ -	$ 480,121	$ 480,121	$ 866,456
External endowment contributions	3,405	-	-	-	3,405	79,680
Transfers						
Acquisition of internally funded capital assets	-	3,283,118	-	(3,283,118)	-	-
Payment of capital lease principal	-	128,407	-	(128,407)	-	-
Payment of long term debt principal	-	62,293	-	(62,293)	-	-
Net book value on disposal of capital assets		(681,195)		681,195		
Amortization of internally funded capital assets	-	(1,061,611)	-	1,061,611	-	-
Internal restrictions	-	-	(783,830)	783,830	-	-
Increase (decrease) in net assets	3,405	1,731,012	(783,830)	(467,061)	483,526	946,136
Net assets at beginning of year	2,896,692	3,871,787	2,757,659	1,190,594	10,716,732	9,770,596
Net assets at end of year	$ 2,900,097	$ 5,602,799	$ 1,973,829	$ 723,533	$ 11,200,258	$ 10,716,732

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006

	2006	2005
Operating activities		
Excess of revenue over expense	$ 480,121	$ 866,456
Add (deduct) non-cash transactions		
Amortization of capital assets	2,789,104	2,644,021
Gain on disposal of capital assets	(1,619)	(6,148)
Amortization of deferred capital contributions	(1,727,492)	(1,984,066)
Amortization of investment discount	(248,274)	(226,998)
	1,291,840	1,293,265
Changes in non-cash working capital (Note 22)	1,177,273	(657,754)
Cash generated from operating activities	2,469,113	635,511
Investing activities		
Proceeds on disposal of capital assets	1,619	6,148
Acquisition of capital assets	(5,393,397)	(1,322,972)
Purchase of investments	(33,121,614)	(29,310,228)
Disposal of investments	31,466,806	27,074,623
Cash applied to investing activities	(7,046,586)	(3,552,429)
Financing activities		
Proceeds of capital loan	2,350,000	-
Payment of capital lease principal	(128,407)	(114,563)
Payment of long term debt principal	(62,293)	(36,000)
Endowment contributions	3,405	79,680
Capital contributions (Note 8)	3,340,241	(342,979)
Cash generated from (used by) financing activities	5,502,946	(413,862)
Increase (decrease) in cash	925,473	(3,330,780)
Cash/(Bank Indebtedness) at beginning of year	(609,288)	2,721,492
Cash/(Bank Indebtedness) at end of year	$ 316,185	$ (609,288)

GRANDE PRAIRIE REGIONAL COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1 Authority and Purpose

Grande Prairie Regional College (the "College") operates under the authority of the Post Secondary Learning Act, Chapter P-19.5, Revised Statutes of Alberta 2003. The College is a registered charity and is exempt from the payment of income taxes under the Income Tax Act (Canada).

The College's purpose is to provide students with university transfer, on-campus degree completion, career training, post-secondary preparatory and continuing education programs that contribute to the economic and social well-being of the region.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These consolidated financial statements include the accounts of the Grande Prairie Regional College Alumni/Foundation (the "Foundation"), which operates under the Alberta Companies Act and is a registered charitable organization for income tax purposes. The Foundation's activities are directed to the support and advancement of the College.

(b) Revenue Recognition

Unrestricted contributions are recognized as revenue when they are received.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period the related expenses are incurred.

Externally restricted capital contributions are deferred until the related capital asset is acquired. Contributions for capital assets that will be amortized are transferred to unamortized deferred capital contributions in the period the asset is acquired and are recognized as revenue in the periods the related capital assets are amortized. Contributions for capital assets that will not be amortized, such as land, are recorded as direct increases in net assets in the period the asset is acquired.

Externally restricted endowment contributions are recorded as direct increases in net assets.

Government grants are accounted for as unrestricted or externally restricted contributions in accordance with the terms of funding.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Amounts received for tuition and related fees, sales, rentals and services and contract programs are recorded as unearned revenue and recognized as revenue in the period the goods are delivered or the services are provided.

(c) Endowments

Endowments represent restricted donations and amounts designated as endowments by the Board of Directors of the Foundation. Principal is to be held intact. Interest earned on endowments must be used in accordance with the conditions imposed by the donors' terms of reference or by Board policy.

(d) Internally Restricted Net Assets

Internally restricted net assets are amounts set aside by the College Board of Governors to be used for designated purposes.

(e) Long-term Investments

Investments are recorded at cost. Gains and losses on investments are recognized in the period of disposal or when there is an impairment other than temporary in the value of the investment.

(f) Capital Assets

Capital asset acquisitions are recorded at cost, except donated assets which are recorded at fair value when a fair value can be reasonably determined.

Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	25 to 40 years
Site improvements	25 years
Furnishings and equipment	5 to 15 years
Vehicles	5 years
Library materials	10 years
Leasehold improvements	5 years

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(g) Leases

A lease that transfers substantially all of the benefits and risks of ownership is classified as a capital lease. At the inception of a capital lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets under capital leases are amortized on a straight-line basis, over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

(h) Long-lived assets

Long-lived assets consist of capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The College performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value.

(i) Art Collection

The College holds a collection of approximately 2,600 works of donated art, consisting of sketches, limited edition prints, photographs, and some original paintings. The collection is held by the College for educational use and for public exhibition. The Board of Governors passed a resolution requiring the art to be cared for and preserved.

Collection artworks are not recognized as assets in the Statement of Financial Position. Any proceeds from their sale or disposal may be used only to acquire other art for the collection or to care for the existing collection. Purchased art added to the collection will be expensed in the year of acquisition. To date, no artwork has been purchased for this collection.

(j) Inventories

Inventories for resale are valued at the lower of cost and estimated net realizable value. Cost is determined on a first-in, first-out basis. Inventories held for consumption are valued at the lower of cost and replacement value.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(k) Pensions

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits payable under the pension plan. The College does not record the College's portion of the pension plan's deficit or surplus.

(l) Cash and equivalents

Cash include balances with banks and short-term investments with maturities of three months or less.

(m) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of Capital Assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Note 3 Inventories

	2006	2005
Bookstore	$ 514,165	$ 504,125
Duplicating Services	20,864	30,980
Financial Services	5,147	3,367
Climbing Gym	1,338	1,014
	$ 541,514	$ 539,486

Note 4 Long-term Investments

	2006		2005	
	Book Value	Market Value	Book Value	Market Value
Bonds and bank notes				
Government of Canada bonds	$ 1,100,000	$ 1,110,021	$ 1,100,000	$ 1,191,905
Provincial bonds	4,073,921	4,167,595	3,769,429	4,102,685
Canadian bank notes	5,797,110	5,833,454	4,226,615	4,227,119
Corporate bonds	598,117	625,300	562,474	627,164
	11,569,148	11,736,370	9,658,518	10,148,873
Equities	600,995	783,354	608,544	722,936
	$ 12,170,143	$ 12,519,724	$ 10,267,062	$ 10,871,809

Note 4 Long-term Investments (continued)

Bonds and bank notes by range of maturity date are as follows:

	2006		
	Book Value	Market Value	Effective Yield to Maturity
Maturity 1 - 5 years	$ 8,263,786	$ 8,345,701	3.9%
Maturity 6 - 10 years	1,450,673	1,533,554	5.9%
Maturity 11- 15 years	1,571,477	1,586,203	5.3%
Maturity 16- 20 years	283,212	270,912	5.0%
	$ 11,569,148	$ 11,736,370	4.1%

The market value may fluctuate with changes in current interest rates. Market values may decrease if interest rates increase and market values may increase if interest rates decrease.

Term to maturity is based upon the contractual maturity of the security. Effective yield represents the rate that discounts future cash receipts to the carrying value of the investments at June 30, 2006.

Where fair value is less than cost, in management's best judgment, and based on market trends, the fair value will likely recover over time.

Note 5 Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 713,631	$ -	$ 713,631	$ 713,631
Buildings	54,573,736	23,672,400	30,901,336	28,812,578
Buildings under construction	1,136,875	-	1,136,875	681,195
Site improvements	1,279,036	1,213,091	65,945	86,337
Furnishings, equipment and vehicles	12,094,410	10,082,241	2,012,169	1,949,145
Library materials	1,663,262	843,218	820,044	802,821
	$ 71,460,950	$ 35,810,950	$ 35,650,000	$ 33,045,707

Buildings under construction are currently not amortized. Amortization will begin upon the earlier of substantial completion or availability for use.

Note 6 Unearned Revenue

	2006	2005
Tuition and other student fees	$ 116,937	$ 84,663
Sales, rentals and services	289,714	175,350
	$ 406,651	$ 260,013

Note 7 Four-for-five Leave Plan

Employees of the College who are members of the Academic Staff Association or the Employees Association are eligible to apply for a four-for-five leave plan. Employees' contributions are held by the College until the leave period when they are paid to the employee as salary with a matching amount from the College. Employees' contributions are held by the College and recorded as a liability. The College matching amount and interest earned on the employees' contributions are also recorded as a liability until paid to the employee.

	2006	2005
Employees' contributions held by College	$ 188,627	$ 292,789
College matching contributions	188,627	292,789
Interest held on employees' contributions	28,295	34,290
	$ 405,549	$ 619,868

Note 8 Deferred Contributions

Deferred contributions represent unspent funds externally restricted. Changes in the deferred contributions balances for non-capital and for capital purposes are as follows:

Deferred contributions - conditional grants, donations, and other deferred contributions

	2006	2005
Contributions received during the year	$ 1,059,721	$ 1,355,881
Transferred from deferred capital contributions	484,114	763,286
Transferred to revenue	(1,430,697)	(1,990,064)
Transferred to endowments	(3,405)	(79,680)
Increase during the year	109,733	49,423
Balance at beginning of year	647,792	598,369
Balance at end of year	$ 757,525	$ 647,792
The balance consists of funds restricted for:		
Scholarships and bursaries	$ 585,660	$ 439,375
Theatre	-	48,017
S.J. Alward library fund	49,727	15,524
Other	122,138	144,876
	$ 757,525	$ 647,792

Deferred capital contributions

	2006	2005
Contributions received during year	$ 3,824,355	$ 420,307
Transferred to deferred contributions - operating	(484,114)	(763,286)
Transferred to unamortized deferred capital contributions (Note 11)	(441,474)	(373,402)
Increase (decrease) during the year	2,898,767	(716,381)
Balance at beginning of year	538,188	1,254,569
Balance at end of year	$ 3,436,955	$ 538,188

Note 9 Obligation Under Capital Lease

The following is a schedule of future minimum annual lease payments:

2007	122,391
Total minimum lease payments	122,391
Less amount representing interest	4,385
Capital lease obligation	118,006
Less current portion	118,006
Non-current portion	$ -

The capital lease obligation is at 7.1% and expires on May 4, 2007

Note 10 Long-Term Debt

	Principal Outstanding	
	2006	2005
Student residence - debenture (a)	$ 336,000	$ 352,000
Student residence - debenture (b)	440,000	460,000
Student residence - debenture (c)	2,323,707	-
Less current portion	(90,330)	(36,000)
	$ 3,009,377	$ 776,000

(a) On November 15, 2001, the College borrowed the sum of $400,000 from Alberta Capital Financing Authority as a construction loan to build a new student residence. The loan bears interest at 6% and matures November 15, 2026 with 25 annual payments of principal and interest beginning November 15, 2002.

The repayment of principal in the next five fiscal years is as follows:

2007	$ 16,000
2008	16,000
2009	16,000
2010	16,000
2011	16,000

The student residence loan is secured by a general security agreement over all proceeds derived directly or indirectly from the operations of the residence building named Resources Place.

(b) On July 15, 2002, the College borrowed the sum of $500,000 from Alberta Capital Financing Authority as a construction loan to build a new student residence. The loan bears interest at 6.125% and matures July 15, 2027 with 25 annual payments of principal and interest beginning July 15, 2003.

The repayment of principal in the next five fiscal years is as follows:

2007	$ 20,000
2008	20,000
2009	20,000
2010	20,000
2011	20,000

The student residence loan is secured by a general security agreement over all proceeds derived directly or indirectly from the operations of the residence building named Resources Place.

(c) On September 15, 2005, the College borrowed the sum of $2,350,000 from Alberta Capital Financing Authority as a construction loan to build a new student residence. The loan bears interest at 4.392% and matures September 15, 2030 with 50 semi annual payments of principal and interest beginning September 15, 2005.

The repayment of principal in the next five fiscal years is as follows:

2007	$ 54,330
2008	56,743
2009	59,262
2010	61,894
2011	64,642

The student residence loan is secured by a general security agreement over all proceeds derived directly or indirectly from the operations of the residence building named Resources Place.

Note 11 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the externally funded portion of capital assets, which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contribution balance are as follows:

	2006	2005
Balance at beginning of year	$ 28,115,507	$ 29,726,171
Add amount transferred from deferred contributions (Note 8)	441,474	373,402
Less amount amortized to revenue	(1,727,493)	(1,984,066)
Balance at end of year	$ 26,829,488	$ 28,115,507

Note 12 Endowments

Endowments are comprised of donations received by the organization and interest earnings that have been redirected to principal as requested by the donor of the original endowment. Externally restricted endowments are required to be maintained intact in accordance with the donor's wishes.

	Balance at Beginning of Year	Contributions and Transfers	Reinvested Earnings	Balance at End of Year
Externally Restricted				
Scholarships fund	$ 1,343,124	$ 964	$ -	$ 1,344,088
S.J. Alward library fund	618,550	-	-	618,550
	1,961,674	964	-	1,962,638
Internally Restricted				
Scholarships fund	482,127	2,441	-	484,568
Athletic fund	300,902	-	-	300,902
Theatre fund	78,682	-	-	78,682
Foundation fund	73,307	-	-	73,307
	935,018	2,441	-	937,459
	$ 2,896,692	$ 3,405	$ -	$ 2,900,097

The S.J. Alward library fund contains funds contributed by the Alward estate and the Province of Alberta matching grants for use in connection with the College Library. These funds were placed in the library endowment fund by the Grande Prairie Regional College Foundation Board of Directors, with the agreement of the Alward Estate.

Note 13 Internally Restricted Net Assets

The Management of the College with the approval of the Board of Governors has placed restrictions on the spending of a portion of the accumulated excess of revenue over expenditure for specific purposes as shown below.

The Management of the College may spend these internally restricted amounts for these purposes. They are not available for any other purposes without the approval of the Board.

	2006	2005
Capital		
Student residence	$ 76,284	$ 499,229
Physical activity centre	30,857	47,317
Other departments	49,203	56,169
Duplicating Services	50,000	50,000
	206,344	652,715
Non-capital		
College operating expenses	1,511,555	1,789,255
Foundation - internally restricted	255,930	315,689
	1,767,485	2,104,944
	$ 1,973,829	$ 2,757,659

Note 14 Commitments

Professional Leave

Effective August 15, 1998, the College has agreed under Article 12 of the collective agreement with the Academic Staff Association to provide a total of 48 months of paid professional leave to members of the Academic Staff Association each contract period (August 15 to August 14). Members of the Administrative Group may request approval for paid professional leave.

At June 30, 2006, the following commitments have been made under the above agreement, for which no provision has been made in the financial statements.

	2006	2005
Academic Staff		
July 1, 2006 to August 14, 2006	$ 15,266	$ 23,364
August 15, 2006 to August 14, 2007	191,526	248,434
	$ 206,792	$ 271,798

Note 15 Budget

On April 28, 2006 the Board of Governors approved a revenue and expense budget for Grande Prairie Regional College for 2005-2006. The budget approved provided an annual operating excess of revenue over expense of $319,552. On April 19, 2005 the Board of Directors of the Foundation approved a budget for 2005-06 with operating revenue equal to expense.

The two budgets have been consolidated and presented in the Consolidated Statement of Operations.

Note 16 Grants Revenue

	2006	2005
Department of Learning		
Base	$ 17,589,646	$ 16,417,018
Conditional	1,129,951	1,181,051
Province of Alberta, other	131,689	158,763
	18,851,286	17,756,832
Government of Canada	85,187	135,893
	$ 18,936,473	$ 17,892,725

Note 17 Sales, Rentals and Services

	2006		
	Revenue	Expense	Net
Student Residence	$ 1,001,952	$ 700,638	$ 301,314
Parking	195,115	14,019	181,096
Bookstore	981,927	962,143	19,784
Food Services and Vending	48,320	10,574	37,746
Conference Sales and Rentals	29,154	-	29,154
Sale of logs	39,539	116,404	(76,865)
Fitness Centre	132,802	169,832	(37,030)
Climbing Gym	71,218	70,512	706
Other	935,704	214,171	721,533
	$ 3,435,731	$ 2,258,293	$ 1,177,438

	2005		
	Revenue	Expense	Net
Student Residence	$ 713,943	$ 514,214	$ 199,729
Parking	205,081	13,851	191,230
Bookstore	1,007,841	930,371	77,470
Food Services and Vending	48,992	4,808	44,184
Conference Sales and Rentals	24,851	-	24,851
Sale of logs	359,818	35,451	324,367
Fitness Centre	160,630	162,246	(1,616)
Climbing Gym	70,208	84,092	(13,884)
Other	651,378	253,292	398,086
	$ 3,242,742	$ 1,998,325	$ 1,244,417

Note 18 Expense

Expense is summarized by function as follows:

	2006	2005
Direct instruction	$ 15,527,658	$ 14,912,995
Institutional support	9,257,094	7,951,327
Amortization of capital assets	2,789,104	2,644,021
Academic support	1,466,017	1,988,194
Ancillary services	2,007,097	1,831,345
Student services	1,360,519	1,896,934
Scholarships	227,509	225,510
Loss on disposal of capital assets	-	-
	$ 32,634,998	$ 31,450,326

Direct instruction encompasses all formal educational and instructional program elements. Institutional support includes all activities that provide College-wide support to other programs. Academic support includes all activities that directly support the educational and instructional elements such as academic, administration, library, and audio-visual services. Student services include all activities or services to the student body of the College.

Note 19 Salaries and Benefits

	2006				2005
	Base Salaries(1)	Other Cash Benefits(2)	Other Non-Cash Benefits(3,4)	Total	Total
Chairman of the Board(5)	$ -	$ 5,493	$ 108	$ 5,601	$ 4,227
Board Members(5)	-	36,504	1,679	$ 38,183	30,669
President	131,000	-	19,183	$ 150,183	144,390
Vice Presidents					
Academic	122,961	-	19,183	$ 142,144	135,485
Administration (7)	113,684	-	19,288	$ 132,972	142,474
Executive Director					
Advancement	48,583	-	5,682	$ 54,265	118,139
Directors					
Workforce Development	93,428	-	16,843	$ 110,271	109,278
Communications Services and Technology (7)	-	-	-	$ -	129,703
Human Resources	124,613	-	37,846	$ 162,459	117,637
Financial Services (6)	-	-	-	$ -	43,557
Campus Operations	105,095	-	18,271	$ 123,366	117,725
Registrar	105,095	-	18,120	$ 123,215	117,637

(1) Salaries include pensionable base pay.

(2) Other Cash benefits include Board of Governors Honorarium and vacation payouts.

(3) Benefits and allowances represent the College's share of employee benefits including Canada Pension Plan, Employment Insurance, pensions, health care, dental coverage, group life insurance, accidental death and dismemberment insurance.

(4) An automobile allowance is provided to the President, Vice-President – Academic and the Vice-President – Administration of the College and to the Executive Director – Advancement of the Foundation.

(5) The Chairman of the Board and one Board member donated a portion of their remuneration to the Grande Prairie Regional College Foundation in the amount of $4,279 (2005 –$5,857).

(6) The college has eliminated the position of Director of Financial Services. The amount included here represents amounts paid up until November 2004.

(7) Employee Cash Benefits includes vacation pay in the amount of $nil (2005 – $3,170) for the Director of Communication Services and Technology and $nil (2005– $8,846) for the Vice President Administration.

Note 20 Pension Costs

The College participates in a multi-employer pension plan, Local Authorities Pension Plan (LAPP). The expense for this plan is $1,172,893 for the year ended June 30, 2006 (2005 - $1,038,683).

At December 31, 2005 the LAPP reported a deficit of $863,558,000 (2004 – a deficit of $1,288,924,000). Effective January 1, 2006, the employee's contribution rate was increased by 0.77%.

Note 21 Related Party

Province of Alberta

The College is a Provincial Corporation as all members of the Board of Governors are appointed by combination of an Order by the Lieutenant Governor in Council and the Minister of Advanced Education. Grants revenue transactions between the College and the Province are disclosed in the College consolidated financial statements as follows:

	2006		
	Revenue	Transferred to Unamortized Capital Contributions	Deferred Contributions
Operations	$ 17,464,703	$ -	$ -
Performance	-	-	-
Access	159,693	3,466	1,300
Infrastructure renewal	329,615	286,274	3,392,875
Site evaluation	-	-	-
Other	897,275	-	-
	$ 18,851,286	$ 289,740	$ 3,394,175

	2005		
	Revenue	Transferred to Unamortized Capital Contributions	Deferred Contributions
Operations	$ 16,203,025	$ -	$ -
Performance	91,006	-	-
Access	417,765	5,491	4,766
Infrastructure renewal	763,286	40,932	379,695
Site evaluation	-	-	-
Other	371,739	-	-
	$ 17,846,821	$ 46,423	$ 384,461

During the year the College had business transactions with other entities controlled by the Province of Alberta. These transactions were at market prices on normal terms of purchase and sale.

Note 22 Changes in Non-cash Working Capital

	2006	2005
Accounts receivable	$ 261,837	$ (244,608)
Inventories	(2,028)	(213,479)
Prepaid expenses	(83,186)	12,766
Accounts payable	749,775	(369,288)
Accrued vacation pay	208,823	121,173
Unearned revenue	146,638	(14,697)
Four-for-five Leave Plan	(214,319)	956
Deferred contributions	109,733	49,423
	$ 1,177,273	$ (657,754)

Note 23 Financial Instruments

The College as part of its operations carries a number of financial instruments. It is management's opinion that the College is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Fair value disclosure

The carrying amount of cash, accounts receivable, bank overdraft, current bank loans, accounts payable and accruals approximates their fair value due to the short-term maturities of these items.

The fair value of the College's investments in bonds and equities are based on quoted market prices where available, or on prices for similar investments.

The carrying value of the College's long-term debt approximates its fair value, because interest charges under the terms of the debt are equivalent to loans extended to similar organizations for similar purposes based upon the current Canadian bank prime rate.

Note 24 Contractual Obligations

As at June 30, 2006, the College has outstanding contractual commitments for capital projects as follows:

Student Housing – Phase 4	$4,480,171
Child Care Centre	$1,632,269

Note 25 Funds Held on Behalf of Others

The College holds the following funds on behalf of others over which the Board has no power of appropriation. Accordingly, these funds are not included in the consolidated financial statements.

	2006	2005
Productions	$ 58,000	$ 47,795
EA Staff Development	58,924	36,391
ASA Professional Growth	150,069	152,174
Other	7,901	10,070
	$ 274,894	$ 246,430

Note 26 Contingency

The College, in the conduct of its normal activities, is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be predicted at this time, it is the opinion of the administration that adequate provision for these proceedings has been made in the College's accounts. It is believed that the resolution of the proceedings will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of these proceedings, such amounts would be expensed as the related amounts become known to the College.

Note 27 Approval of Financial Statements

These consolidated financial statements were approved by the Board of Governors.

GRANT MacEWAN COLLEGE
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006

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AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Grant MacEwan College

I have audited the consolidated statement of financial position of Grant MacEwan College as at June 30, 2006 and the consolidated statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Grant MacEwan College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 22, 2006

GRANT MacEWAN COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at June 30, 2006

	2006	2005
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 48,111,468	$ 31,457,650
Accounts receivable	2,676,166	2,259,728
Inventories (Note 4)	1,975,185	1,965,537
Prepaid expenses	690,544	883,546
	53,453,363	36,566,461
Investments (Note 5)	29,292,466	27,624,838
Capital assets (Note 6)	205,055,627	191,355,458
	$ 287,801,456	$ 255,546,757
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 8,246,838	$ 17,077,159
Accrued vacation pay	4,767,877	4,716,018
Unearned revenue (Note 7)	4,382,868	3,727,951
Deferred contributions (Note 8)	9,622,884	2,456,842
Current portion of long term debt (Note 10)	1,239,743	964,669
	28,260,210	28,942,639
Deferred capital contributions (Note 8)	11,457,865	3,552,091
Unamortized deferred capital contributions (Note 9)	100,305,587	90,941,211
Long term debt (Note 10)	50,986,085	45,928,716
	191,009,747	169,364,657
Net Assets:		
Endowments (Note 11)	12,825,869	12,248,806
Investment in capital assets	52,524,212	55,543,500
Internally restricted net assets (Note 14)	24,984,345	4,053,928
Unrestricted	6,457,283	14,335,866
	96,791,709	86,182,100
	$ 287,801,456	$ 255,546,757

The accompanying notes are part of these financial statements.

GRANT MacEWAN COLLEGE
CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Revenue		
Grants (Note 12)	$ 64,204,536	$ 54,072,905
Tuition and related fees	48,812,288	48,726,163
Sales, rentals and services	21,840,090	18,117,913
Amortization of deferred capital contributions (Note 9)	3,518,369	3,674,255
Contract programs	3,869,250	3,852,693
Donations	3,983,923	2,288,179
Investment income (Note 13)	3,153,589	2,784,066
	149,382,045	133,516,174
Expense		
Salaries and benefits (Note 15)	84,960,893	81,731,922
Supplies and services	28,869,823	24,845,683
Amortization of capital assets	9,581,916	8,325,998
Cost of goods sold	7,778,004	7,399,522
Utilities	3,983,850	3,195,060
Scholarships and bursaries	1,054,908	932,987
Interest on long term debt	2,543,895	366,812
	138,773,289	126,797,984
Excess of revenue over expense	$ 10,608,756	$ 6,718,190

The accompanying notes are part of these financial statements.

GRANT MacEWAN COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	2006					2005
	Endowments (Note 11)	Investment in Capital Assets	Internally Restricted (Note 14)	Unrestricted	Total	Total
Excess of revenue over expense	$ -	$ -	$ -	$ 10,608,756	$ 10,608,756	$ 6,718,190
Endowment contributions	77,550				77,550	472,564
(Encroachment)/Repayment	(76,697)				(76,697)	483,215
Transfers for:						
Acquisition of internally funded capital assets		2,095,168		(2,095,168)	-	-
Repayment of debt related to capital assets		1,087,042		(1,087,042)	-	-
Amortization of internally funded capital assets		(6,063,547)		6,063,547	-	-
Disposal of internally funded assets		(137,951)		137,951	-	-
Net appropriations to restricted funds	576,210		20,930,417	(21,506,627)	-	-
Increase (decrease) in net assets	577,063	(3,019,288)	20,930,417	(7,878,583)	10,609,609	7,673,969
Net assets at beginning of year	12,248,806	55,543,500	4,053,928	14,335,866	86,182,100	78,508,131
Net assets at end of year	$ 12,825,869	$ 52,524,212	$ 24,984,345	$ 6,457,283	$ 96,791,709	$ 86,182,100

The accompanying notes are part of these financial statements.

GRANT MacEWAN COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Cash provided from (used in) operating activities:		
Excess of revenue over expense	$ 10,608,756	$ 6,718,190
Add (deduct) non-cash transactions:		
Amortization of capital assets	9,581,916	8,325,998
Loss on disposal of capital assets	105,393	163,360
Amortization of deferred capital contributions	(3,518,369)	(3,674,255)
	16,777,696	11,533,293
Net change in non-cash working capital (*)	2,975,464	4,369,406
	19,753,160	15,902,699
Cash provided from (used in) investing activities:		
Acquisition of capital assets:		
Internally funded	(2,095,168)	(5,745,706)
Externally funded	(12,882,745)	(264,054)
Debt funded	(8,442,122)	(29,977,362)
Proceeds on disposal of capital assets	32,557	7,632
Acquisition of long term investments	(1,744,325)	(1,686,575)
	(25,131,803)	(37,666,065)
Cash provided by (used in) Financing activities:		
Endowment contributions	77,550	472,565
Capital asset contributions (Note 9)	12,882,745	264,054
Deferred capital contributions	7,905,774	1,383,582
Construction payables	(4,166,051)	3,069,858
Long-term debt	5,332,443	31,802,716
	22,032,461	36,992,775
Increase in cash and cash equivalents	16,653,818	15,229,409
Cash and cash equivalents, beginning of year	31,457,650	16,228,241
Cash and cash equivalents, end of year	$ 48,111,468	$ 31,457,650
(*) Net Change in non-cash working capital:		
Accounts receivable	$ (416,438)	$ 52,598
Inventories	(9,648)	256,486
Prepaid expenses	193,002	(331,041)
Accounts payable and accrued liabilities	(4,664,270)	5,369,852
Accrued vacation pay	51,859	102,784
Unearned revenue	654,917	487,824
Deferred contributions	7,166,042	(1,569,097)
	$ 2,975,464	$ 4,369,406

The accompanying notes are part of these financial statements.

GRANT MacEWAN COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1 **Authority and Purpose**

Grant MacEwan College (the "College") operates under the authority of the *Post Secondary Learning Act*. The College offers applied degree, diploma and certificate programs in arts and science, business, health and community studies, and performing, visual and communication arts. The College also offers first and second year university transfer programs in arts and science, physical education, nursing, engineering and commerce. Through its outreach activities, the College offers credit and non-credit courses in these programs on an outreach basis within greater Edmonton, and on a brokerage and outreach basis to other areas of the Province, nationally and beyond.

The College is a registered charity, and under Section 149 of the *Income Tax Act* is exempt from payment of income tax.

Note 2 **Significant Accounting Policies and Reporting Practices**

(a) **General**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these statements requires the use of estimates, which may vary significantly from actual results. The following accounting policies and reporting practices are considered significant.

(b) **Consolidated Financial Statements**

These consolidated financial statements include the accounts of the Grant MacEwan College Foundation, which operates under part 9 of the *Companies Act* of Alberta for the support and advancement of the College. The Foundation is a registered charity and is exempt from payment of income taxes.

(c) **Valuation of Financial Instruments**

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and unearned revenue are estimated to approximate their carrying values.

Investments are recorded at cost. Gains and losses on investments are recognized upon liquidation, or when there is other than temporary impairment in the market value of an investment. The measurement of the market value of the long term investments is contingent upon future events in the financial markets; therefore, the preparation of these statements requires the use of estimates, which may vary from actual results.

(d) **Inventories**

Inventories for resale are valued at the lower of cost or net realizable value, with cost determined on a moving average basis. Inventories held for consumption are valued at cost.

(e) **Capital Assets**

Capital asset acquisitions are recorded at cost, except donated assets, which are recorded at fair market value, when a fair value can be reasonably determined. Land and art collections are not amortized.

Capital assets are amortized on a straight-line basis over the following average useful lives:

Buildings and site improvements	10 to 40 years
Furniture, equipment and vehicles	10 years
Library materials	10 years
Computers and telecommunications equipment	5 years
Equipment under capital lease	period of the lease

(f) **Revenue Recognition**

The financial statements record the following items as revenue - at the following times:

- Unrestricted contributions - in the period they are receivable.
- Externally restricted non-capital contributions - deferred and recognized in the period in which the conditions are met.
- Non-capital donations of materials and services that would otherwise have been purchased are accounted for as externally restricted non-capital contributions - recorded at fair value when a fair value can be reasonably estimated.
- Externally restricted capital contributions - recorded as deferred capital contributions until the amount is invested in capital assets.
- Contributions for capital assets that will be amortized - transferred to unamortized deferred capital contributions in the period the asset is acquired.
- Contributions for capital assets that will not be amortized, such as land and art collections - recorded as direct increases in net assets in the period the asset is acquired.
- Capital donations of assets that would otherwise be purchased - accounted for as externally restricted capital contributions, and recorded at fair value when a fair value can be reasonably estimated.
- Unamortized deferred capital contributions - in the periods in which the related capital assets are amortized. The related portion of amortization expense and the deferred capital contributions revenue are matched to indicate how the related amortization expense has been funded. Unamortized deferred capital contributions relating to capital assets disposed of are recognized as revenue in the period of disposal, provided that all restrictions have been complied with.
- Government grants - unrestricted contributions or externally restricted contributions in accordance with the terms of funding.
- Externally restricted contributions made for endowment purposes - not recognized as revenue, but recorded as direct increases in net assets.
- Investment income on unrestricted contributions - when realized.
- Investment income on externally restricted endowments - when the related expenditures have been incurred.
- Tuition fees - when the instruction is delivered.
- Contract programs and sales, rentals and services - in the period the goods are delivered or the services are provided.

(g) **Pension Obligation and Expense**

The College and its eligible employees participate in the Local Authorities Pension Plan, which is a multi-employer defined benefit plan. The College records an expense for pension benefits equivalent to the annual contributions payable during the year. Accounting treatment for multi-employer pension plans is the same as for defined contribution plans and, therefore, no plan deficits or surplus' are recorded in the College accounts.

Note 3 Cash and Cash Equivalents

Cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund which is managed with the objective of providing competitive interest income to the depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at June 30, 2006, securities held by the fund have an average effective market yield of 4.40% per annum.

Note 4 Inventories

	2006	2005
Bookstores	$ 1,903,789	$ 1,815,877
Other inventories	71,396	149,660
	$ 1,975,185	$ 1,965,537

Note 5 Investments

	2006		2005
	Market Value	Cost	Cost
Pooled Funds			
Common stocks and equivalents	$ 13,883,742	$ 13,551,040	$ 13,407,094
Fixed income securities	13,121,065	13,780,033	12,187,806
Cash and equivalents	943,809	943,809	1,061,280
Cash surrender value of planned gifts (life insurance policies)	637,448	637,448	620,735
Other	380,136	380,136	347,923
	$ 28,966,200	$ 29,292,466	$ 27,624,838

Note 6 **Capital Assets**

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 22,960,846	$ -	$ 22,960,846	$ 22,960,846
Buildings and site improvements	200,254,042	(51,781,754)	148,472,288	109,586,108
Furniture, equipment and vehicles	21,504,703	(11,199,836)	10,304,867	7,808,274
Library materials	8,268,730	(4,889,569)	3,379,161	2,969,557
Computers and telecommunications equipment	21,696,803	(15,236,304)	6,460,499	5,980,223
Equipment under capital lease	692,433	(230,328)	462,105	149,214
Art collection	284,579	-	284,579	252,979
Projects in progress	12,731,282	-	12,731,282	41,648,257
	$ 288,393,418	$ (83,337,791)	$ 205,055,627	$ 191,355,458

Note 7 **Unearned Revenue**

	2006	2005
Contract programs & tuition fees	$ 2,966,605	$ 2,792,399
Program deposits	819,241	447,851
Ancillary services	597,022	487,701
	$ 4,382,868	$ 3,727,951

Note 8 **Deferred Contributions**

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balances are as follows:

	2006			2005
	Capital	Program Delivery and Other	Total	Total
Balance, beginning of the year	$ 3,552,091	$ 2,456,842	$ 6,008,933	$ 6,194,449
Grants and donations received	20,267,409	18,996,374	39,263,783	9,685,565
Recognized as revenue	-	(11,683,091)	(11,683,091)	(9,607,027)
Transferred:				
• from investment income (Note 13)	215,521	-	215,521	-
• from (to) endowments	305,589	(147,241)	158,348	-
• to unamortized deferred capital contributions (Note 9)	(12,882,745)	-	(12,882,745)	(264,054)
Balance, end of the year	$ 11,457,865	$ 9,622,884	$ 21,080,749	$ 6,008,933

Note 9 **Unamortized Deferred Capital Contributions**

Deferred capital contributions represent the unamortized grants and donations received to fund capital acquisitions. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

	2006	2005
Balance at beginning of year	$ 90,941,211	$ 94,351,412
Transferred from deferred contributions (Note 8)	12,882,745	264,054
Less amount amortized to revenue	(3,518,369)	(3,674,255)
Balance at end of year	$ 100,305,587	$ 90,941,211

Note 10 **Long-term Debt**

	Collateral	Maturity Date	Interest Rate %	Amount Outstanding 2006	Amount Outstanding 2005
Parkade debenture	Parkade revenue	April 2025	6.25	$ 5,609,578	$ 5,762,055
Student residence debenture	Student residence revenue	June 2030	5.85	40,245,732	41,000,000
West parkade debenture	Parkade revenue	September 2030	4.39	5,932,870	-
				51,788,180	46,762,055
Obligations under capital leases				437,648	131,330
				52,225,828	46,893,385
Less current portion				(1,239,743)	(964,669)
				$ 50,986,085	$ 45,928,716

The principal portion of long-term debt repayments required over the next five years are as follows: 2007 - $1,239,743; 2008 - $1,256,826; 2009 - $1,318,285; 2010 - $1,395,007; 2011 - $1,401,824; Subsequent - $45,614,143.

Note 11 **Endowments**

	2006	2005
Endowments consist of funds held to provide scholarships and support College programs:		
Externally funded	$ 12,181,886	$ 12,085,234
Internally funded	1,341,516	784,408
	13,523,402	12,869,642
Net encroachment on principal	(697,533)	(620,836)
	$ 12,825,869	$ 12,248,806

Note 12 **Grants**

	2006	2005
Province of Alberta		
Base operating grant	$ 53,424,798	$ 45,578,663
Earned conditional funding	10,738,972	8,384,966
	64,163,770	53,963,629
Earned conditional Government of Canada funding	40,766	109,276
	$ 64,204,536	$ 54,072,905

Note 13 **Investment Income**

	2006	2005
Gain on restricted endowments	$ 669,481	$ 927,427
Gain on unrestricted investments	2,628,981	2,097,860
Total investment gain income for the year	3,298,462	3,025,287
(Gain) loss to restricted endowments	76,696	(483,216)
Transfer from/(to):		
• deferred contributions	822	241,995
• endowments	(6,870)	-
• deferred capital contributions (Note 8)	(215,521)	-
Total investment income recognized as revenue	$ 3,153,589	$ 2,784,066

Note 14 **Internally Restricted Net Assets**

The Board has committed unrestricted net assets as follows:

	2006	2005
Operations		
Academic program development	$ 2,720,501	$ 22,527
Degree implementation	4,966,593	-
Residence start up	1,000,000	1,000,000
Contingency	1,000,000	1,000,000
	9,687,094	2,022,527
Capital		
Robbins Health Learning Centre	6,360,000	-
Capital renewals	5,168,392	-
Technology projects	3,670,978	2,000,000
Scholarships and bursaries	97,881	31,401
	15,297,251	2,031,401
Total	$ 24,984,345	$ 4,053,928

Note 15 **Salary & Benefits Disclosure**

(a) The College contributed $4,089,997 (2005: $3,304,936) to the Local Authorities' Pension Plan on behalf of employees. This amount has been recognized as a benefit expense in the College accounts in the year the contributions were made.

(b)

	2006				2005
	Base Salary (1)	Other Cash Benefits (2)	Other Non-cash Benefits (3)	Total	Total
Chairman of the Board	$ -	$ 6,270	$ -	$ 6,270	$ 6,429
Board Members	-	27,540	-	27,540	33,201
President (4)	202,784	-	44,804	247,588	242,623
Executive/Vice Presidents:					
Vice President Resources (5)	166,186	-	23,820	190,006	174,650
Executive Vice President Academic (5)	179,032	-	37,081	216,113	180,101
Vice President Student Services	138,239	-	15,961	154,200	144,901
Chief Technology Officer	-	-	-	-	144,655
Executive Director, Human Resources	123,308	-	30,913	154,221	150,092
Executive Director, Strategic Planning	118,266	-	17,117	135,383	127,399
Chief Financial Officer	160,000		21,982	181,982	154,688

(1) Base salary includes pensionable base pay.

(2) Other cash benefits includes bonuses, overtime, lump sum payments, honoraria and vacation payouts.

(3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, out-of-country medical benefits, group life insurance, long and short-term disability plan, professional memberships and tuition. Other non-cash benefits figure also includes the employer's share of the cost of additional benefits including sabbaticals or other special leave with pay, financial planning services, retirement services, concessionary loans, travel allowances, car allowances, and club memberships.

(4) The College provides an automobile, the value of which is included in other non-cash benefit figures. Other non-cash benefits figure does include the employer share of the cost of the Supplemental Executive Retirement Plan.

(5) Vice President receives a car allowance, the value of which is included in non-cash benefit.

Note 16 **Related Party Transactions**

The College is a Provincial Corporation as all of the members of the Board of Governors are appointed either by the Post Secondary Learning Act or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education.

The College provided courses to provincial government departments and participated in offering certain courses with other post-secondary institutions. The revenues and expenses incurred for these courses have been included in the consolidated statement of revenue and expense but have not been separately quantified. These transactions were entered into on the same business terms as with non-related parties and are recorded at these fair value amounts. Transactions with the Province of Alberta are disclosed in Note 12 to these financial statements.

The College had unspent funds of $19,479,763 (2005: $877,842) which were received from the Province of Alberta for capital and non-capital projects. These amounts are classified as deferred contributions and are required to be spent on capital and non-capital projects as agreed upon between the College and the Province.

Note 17 **Budget**

The Board of Governors approved the following budget relating to the College's operating revenue and expenses for the fiscal period ending June 30, 2006:

Revenue		
Grants	$	55,820,745
Tuition and related fees		50,612,844
Private contracts		3,722,320
Sales, rentals and services		24,477,992
Amortization of deferred capital contributions		3,942,000
Donations		2,002,000
Investment income		2,421,878
Total Revenue	$	142,999,779
Expense		
Salaries and benefits	$	87,814,878
Supplies and services		27,651,503
Amortization of capital assets		9,472,500
Cost of goods sold		9,215,707
Utilities		4,753,096
Scholarships and bursaries		1,031,000
Interest on long term debt		3,061,095
Total Expense		142,999,779
Excess of Revenue over Expense	$	-

Note 18 **Commitments**

The College is committed to several operating lease contracts. The minimum operating lease payments required for the next five years are as follows:

	2007	$ 666,228
	2008	323,655
	2009	111,671
	2010	74,004
	2011	70,046
Total		$ 1,245,604

The Board of Governors of the College has approved a capital project to design and build the Robbins Health Learning Centre. The amount approved was $60,000,000. At June 30, 2006, approximately $47,268,718 of expenditures are yet to be incurred.

Note19 **Contingent Liabilities**

The College is a defendant in a number of legal proceedings. Claims against the College in these proceedings have not been reflected in these financial statements. While the ultimate outcome and liability of these proceedings cannot be reasonably estimated at this time, the College believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the College.

Note 20 **Approval of Financial Statements**

These financial statements were approved by the Board of Governors on October 26, 2006.

KEYANO COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2006

Auditor's Report

Statement of Financial Position

Statement of Revenue and Expense

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Keyano College

I have audited the statement of financial position of Keyano College as at June 30, 2006 and the statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 11, 2006

KEYANO COLLEGE
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2006

ASSETS	2006	2005
Current:		
Cash (Note 3)	$ 11,442,280	$ 1,401,694
Short-term investments (Note 4)	5,845,317	893,823
Accounts receivable	2,723,790	1,918,487
Inventories (Note 5)	223,558	139,549
Prepaid expenses	230,985	210,866
	20,465,930	4,564,419
Long-term investments (Note 4)	8,360,854	8,187,122
Long-term accounts receivable (Note 6)	80,620	80,620
Tangible capital assets (Note 7)	67,120,034	61,167,867
	$ 96,027,438	$ 74,000,028

LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 5,262,722	$ 1,224,478
Accrued vacation pay	1,731,014	1,656,675
Unearned revenue (Note 8)	872,046	704,277
Long-term debt due within one year (Note 11)	309,139	293,247
Deferred contributions (Note 9)	2,711,397	1,437,131
	10,886,318	5,315,808
Long-term:		
Long-term debt (Note 11)	5,740,718	6,019,863
Deferred contribution for capital purposes (Note 10)	9,478,463	1,136,421
Unamortized deferred capital contributions (Note 12)	37,378,436	31,438,627
	52,597,617	38,594,911
Net assets:		
Endowments (Note 13)	1,426,191	1,252,523
Investment in tangible capital assets (Note 14)	23,691,741	23,431,163
Unrestricted net assets	7,425,571	5,405,623
	32,543,503	30,089,309
	$ 96,027,438	$ 74,000,028

The accompanying notes are part of these financial statements.

KEYANO COLLEGE
STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED JUNE 30, 2006

	2006 Budget (Note 15)	2006 Actual	2005 Actual
Revenue:			
Grants (Note 23)	$ 24,501,668	$ 25,569,966	$ 22,596,622
Sales, rentals and services	5,218,568	5,286,571	4,883,366
Tuition	5,720,917	6,745,358	5,871,981
Education contracts	1,136,243	686,715	1,150,889
Investment income (Note 4)	260,875	515,981	415,014
Donations	794,177	906,620	805,156
Amortization of deferred capital contributions (Note 12)	1,904,096	1,931,794	1,934,435
	39,536,544	41,643,005	37,657,463
Expense:			
Salaries and benefits	25,049,008	24,836,716	22,662,815
Supplies and services	7,779,484	7,587,302	6,705,325
Scholarships and awards	401,931	479,340	498,106
Utilities	1,681,425	1,516,352	1,475,899
Cost of goods sold	543,096	714,635	645,379
Amortization	3,243,801	3,356,951	3,315,848
Interest on long-term debt	395,518	382,836	348,673
Loss on disposal of tangible capital assets	-	23,211	60,225
Transfer to Keyano Foundation (Note 23)	442,281	465,136	357,978
	39,536,544	39,362,479	36,070,248
Excess (deficiency) of revenue over expense	$ -	$ 2,280,526	$ 1,587,215

The accompanying notes are part of these financial statements.

KEYANO COLLEGE
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	2006				2005
	Endowments (Note 13)	Investment in Tangible Capital Assets (Note 14)	Unrestricted Net Assets	Total	Total
Beginning of year	$ 1,252,523	$ 23,431,163	$ 5,405,623	$ 30,089,309	$ 28,407,760
Excess of revenue over expense			2,280,526	2,280,526	1,587,215
Endowments received	173,668			173,668	94,334
Tangible capital assets acquired from internal funds		1,463,277	(1,463,277)	-	-
Amortization of internally funded tangible capital assets		(1,425,157)	1,425,157	- -	- -
Net book value of disposals		(70,746)	70,746	-	-
Principal repayment of long-term debt		209,876	(209,876)	-	-
Repayment of capital lease obligations		83,328	(83,328)	-	-
	$ 1,426,191	$ 23,691,741	$ 7,425,571	$ 32,543,503	$ 30,089,309

The accompanying notes are part of these financial statements.

KEYANO COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Cash provided from operating activities:		
Excess of revenue over expense	$ 2,280,526	$ 1,587,215
Non-cash transactions:		
Amortization of tangible capital assets	3,356,951	3,315,848
Amortization of deferred capital contributions	(1,931,794)	(1,934,435)
Loss on disposal of tangible capital assets	23,211	60,226
	3,728,894	3,028,854
Changes in non-cash working capital (Note 19)	(306,307)	(3,603,931)
Cash generated from (used in) operating activities	3,422,587	(575,077)
Cash provided from (used in) investing activities:		
Purchases of tangible capital assets:		
Internally funded	(1,463,277)	(1,428,356)
Externally funded through contributions and debt	(7,916,588)	(2,258,860)
Proceeds on disposals of tangible capital assets	47,535	14,020
Purchases (disposal) of long term investments - net	(173,731)	271,945
Cash used in investing activities	(9,506,061)	(3,401,251)
Cash provided from (used in)financing activities:		
Capital contributions received	16,213,646	2,372,216
Endowment contributions	173,667	94,334
Long-term debt repayment - net	(263,253)	837,844
Cash generated from financing activities	16,124,060	3,304,394
Increase (decrease) in cash	10,040,586	(671,934)
Cash at beginning of year	1,401,694	2,073,628
Cash at end of year	$ 11,442,280	$ 1,401,694

KEYANO COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1 Authority and Purpose

Keyano College operates under the authority of the Post-secondary Learning Act, Statutes of Alberta 2003, Chapter P-19.5. The College is a comprehensive community college serving primarily the north-eastern region of Alberta. The College is exempt from payment of income tax under Section 149 of the Income Tax Act.

Note 2 Summaries of Significant Accounting Policies and Reporting Practices

(a) General

The financial statements of the College have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results.

(b) Revenue Recognition

Operating grants are recognized as revenue in the period when receivable. Operating grants received for a future period are deferred until that future period and are reflected as deferred contributions.

Amounts received for tuition fees and sales of goods and services are recognized as revenue at the time the goods are delivered or the services are provided.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributors. Any externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property. Investment income earned on external endowments is recorded as a direct increase in net assets where the donor has stipulated that the economic value of endowments must be protected.

Externally restricted capital contributions are recorded as deferred contributions until the amount is invested to acquire tangible capital assets. Amounts invested representing externally funded tangible capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded tangible capital asset is recorded.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Revenue Recognition (continued)

Contributions of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

(c) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at the lower of cost and replacement value.

(d) Investments

Short-term investments are recorded at the lower of cost and market value.

Long-term investments are recorded at cost. Gains or losses on long-term investments are recognized at liquidation or when the impairment in the value of an investment is other than temporary.

(e) Tangible Capital Assets

Tangible capital asset acquisitions are recorded at cost except for donated assets, which are recorded at fair market value at the time of receipt. Tangible capital assets are amortized on a straight-line basis over the following estimated average useful lives:

	Years
Land improvements	40
Buildings and renovations	40
Furnishings and equipment	10-25
Automotive and heavy equipment	5-25
Library materials	10
Audio-visual equipment	10
Computer hardware and software	5-10

(f) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits payable under the pension plan. The College does not record the College's portion of the pension plan's deficit.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(g) Expenses

Instruction encompasses all formal educational and instructional program elements. Institutional support includes all activities that provide institution-wide support to other programs. Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio-visual services. Student services include all activities or services to the student body of the institution including scholarships and bursaries.

(h) Translation of Foreign Currencies

Monetary assets are translated into Canadian dollars at the rate of exchange at Statement of Financial Position date. Non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur.

Note 3 Cash

At June 30, 2006, the College had an available line of credit totaling $1,000,000, none of which was drawn, which bears interest at Royal Bank prime plus 0.25%.

Note 4 Investments

	2006				2005
	Short-term Investments	Long-term Investments	Total Cost	Market Value	Total Cost
Money market investments	$ 4,678,487	-	4,678,487	4,678,487	$ 893,823
Bonds	1,166,830	4,698,999	5,865,829	5,707,257	4,546,132
Equities	-	3,661,855	3,661,855	4,186,032	3,640,990
	$ 5,845,317	8,360,854	14,206,171	14,571,776	$ 9,080,945

As at June 30, 2006, $1,426,191 (2005 - $1,252,523) is restricted for endowment purposes.

Note 4 Investments (continued)

The Board of Governors has approved investment policies covering both short and long-term investments of the College and the Sports and Wellness Centre.

The investment policy is as follows:

a) Quality constraint of "R1 or A1" or better for money market securities.
b) All corporate and provincial bonds will be rated "A" or higher, with the exception of the portfolio manager having discretion to purchase "BBB" rated securities up to a maximum of 15% of the market value of the fixed income component.
c) No more than 10% of the fund will be invested in any one issuer, other than investments guaranteed by the Government of Canada or any province.
d) No more than 5% of the portfolio will be invested in any one corporate bond issue.
e) The fixed income category of the portfolio shall be a minimum of 40% and a maximum of 60% of the portfolio.
f) The equity category of the portfolio shall be a minimum of 40% and a maximum of 50% of the portfolio.
g) No more than a maximum of 10% of the equity component, at market, will be invested in any one equity issue.

Investment policy for the Sports and Wellness Centre is as follows:

Given the short-term nature of the account, the portfolio will be invested in money market securities and short-term bonds.

a) Money market category of the portfolio shall be a minimum of 50% and a maximum of 100% of the portfolio.
b) Short-term bonds shall be a maximum of 30% of the portfolio.
c) The Money Market Fund will invest in money market securities that are rated "R-1 mid" or better, as rated by the Dominion Bond Rating Service or Standard and Poor's Rating Service, with a 10% provision for "R-1 low" rated paper. The Fund's short-term bond holdings will include investment grade issues with at least an "A" rating from one of the major rating agencies.
d) The Short-term Bond Fund will invest in investment grade bonds and "R-1" rated money market instruments, as rated by the Dominion Bond Rating Service or "A-1" by Standard & Poor's Rating Service. However, the fund will have a maximum exposure of 20% in "BBB" rated bonds or "R-1 low" rated paper.

The portion of the investments related to the Sports and Wellness Centre totaled $5,800,302 at June 30, 2006.

Note 4 Investments (continued)

The effective yield for the portfolio on the bond investment is 4.90 % (2005 – 3.90%). The bond investments mature as follows:

	1 – 5 years	6 – 10 years	Over 10 years	Total
Bonds	$ 1,498,981	$ 2,377,693	$ 822,325	$ 4,698,999

Investment Income	2006	2005
Interest earned on investments	$ 448,149	$ 423,118
Interest earned on operating funds	158,197	59,404
Total interest earned	606,346	482,522
Transferred to deferred contributions (Note 9)	(88,810)	(67,508)
Transferred to funds held on behalf of others	(1,555)	-
	$ 515,981	$ 415,014

Note 5 Inventories

	2006	2005
Bookstore	$ 186,941	$ 104,693
Maintenance supplies	36,617	34,856
	$ 223,558	$ 139,549

Note 6 Long-term Accounts Receivable

The College entered into an agreement to allow corporations to rent certain student residences for a period of five years. The long-term account receivable is GST that is recoverable from the Federal Government once these residences revert to College student use.

Note 7 Tangible Capital Assets

Tangible capital assets are summarized as follows:

	2006			2005
	Cost and Appraised Value	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 12,779,392		$ 12,779,392	$ 12,779,392
Land improvements	463,183	57,898	405,285	416,865
Buildings and renovations	79,633,089	36,115,607	43,517,482	38,327,701
Furnishings and equipment	10,260,185	5,297,998	4,962,187	4,775,094
Automotive and heavy equipment	6,411,571	4,397,381	2,014,190	2,275,233
Library materials	2,052,828	1,805,578	247,250	272,674
Audio-visual equipment	1,122,263	604,675	517,588	359,389
Computer hardware and software	6,118,105	3,441,445	2,676,660	1,961,519
	$ 118,840,616	$ 51,720,582	$ 67,120,034	$ 61,167,867

The Province of Alberta has been granted an option to purchase the whole or any part of the land, buildings and improvements transferred to the College in 1984, at a value of $47,534,300, for the nominal amount of $1 per purchase.

Note 8 Unearned Revenue

	2006	2005
Tuition fees	$ 327,524	$ 255,075
Contract programs	544,522	449,202
	$ 872,046	$ 704,277

Note 9 Deferred Contributions

Deferred contributions represent unspent amounts externally restricted for non-capital purposes.

	2006	2005
Contributions:		
Grants	$ 19,032,774	$ 2,845,662
Donations	422,060	351,037
Investment income (Note 4)	88,810	67,508
	19,543,644	3,264,207
Transferred to revenue:		
Grants	(3,629,361)	(2,706,323)
Donations and investment income	(299,106)	(318,029)
	(3,928,467)	(3,024,352)
Transferred to deferred contributions for capital purposes (Note 10)	(8,774,708)	(500,000)
Transferred to UDCC (Note 12)	(5,392,536)	(1,028,187)
Transferred from (to) endowments	(173,667)	(94,334)
	(14,340,911)	(1,622,521)
Increase (decrease) during the year	1,274,266	(1,382,666)
Balance at beginning of year	1,437,131	2,819,797
Balance at end of year	$ 2,711,397	$ 1,437,131
The balance consists of funds restricted for:		
Scholarships and bursaries	$ 480,821	$ 442,723
New program start-up funds	1,014,393	621,657
Deferred contributions for maintenance	1,216,183	372,751
	$ 2,711,397	$ 1,437,131

Note 10 Deferred Contributions for Capital Purposes

	2006	2005
Contributions:		
Grants (Note 9)	$ 8,774,708	$ 500,000
Donations	2,046,401	844,030
	10,821,109	1,344,030
Transferred to unamortized deferred capital contributions (Note 12)	(2,479,067)	(207,609)
Increase during the year	8,342,042	1,136,421
Balance, beginning of year	1,136,421	-
Balance, end of year	$ 9,478,463	$ 1,136,421

Note 11 Long-term Debt

	2006	2005
Alberta Capital Finance Authority		
Debenture, interest at 6.5% per annum. Repayment of 25 consecutive annual installments of $450,898, principal and interest combined, secured by tangible capital assets with a net book value of $5,335,857. Maturity June 2026	4,968,224	5,088,378
Obligations under Capital Lease Interest at varying rates of 1.5% to 8.9%. Payments Maturity ranging from October 2005 to July 2008	139,608	192,984
Ford Credit Interest at 0%, repayment of $634 per month secured by related asset with a net book value of $29,107 Maturity August 2009	24,128	31,748
Alberta Capital Finance Authority Debenture, interest at 4.26% per annum. Repayment of 20 consecutive semi-annual installments of $61,939, principal and interest combined, secured by tangible capital assets with a net book value of $1,274,538. Maturity March 2015	$ 917,897	$ 1,000,000
	6,049,857	6,313,110
Current portion	309,139	293,247
	$ 5,740,718	$ 6,019,863

Repayment of principal in each of the next five fiscal years will be as follows:

2007	$ 309,139
2008	264,324
2009	253,462
2010	259,383
2011	272,746

Note 11 Long-term Debt (continued)

All acquired intangibles, accounts, monies, accounts receivable, instruments, claims or rights, choices in action and insurance proceeds derived directly or indirectly from the operations of the student residence have been pledged as security on the Alberta Capital Finance Authority debenture.

Long-term debt is subject to certain covenants with respect to loan payments, property tax payments, and certain contract restrictions. As at June 30, 2006, the College is in compliance with all such covenants. It is management's opinion that the College is likely to remain in compliance with all long-term debt covenants throughout the next 12 months subsequent to June 30, 2006.

Note 12 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the external funding of tangible capital assets which will be recognized as revenue in future periods.

	2006	2005
Balance at beginning of year	$ 31,438,627	$ 32,137,266
Add amount transferred		
Deferred contribution (Note 9)	5,392,536	1,028,187
Deferred contribution for capital purpose (Note 10)	2,479,067	207,609
Less amount amortized to revenue	(1,931,794)	(1,934,435)
Balance at end of [illegible]	$ 37,378,436	$ 31,438,627

Note 13 Endowments

Endowments are comprised of externally restricted amounts that are required to be maintained intact.

Note 14 Investments in Tangible Capital Assets

		2006		2005
Tangible capital assets	$	67,120,034	$	61,167,867
Less Debt		(6,049,857)		(6,298,077)
Unamortized deferred capital contributions (note 12)		(37,378,436)		(31,438,627)
Balance at end of year	$	23,691,741	$	23,431,163

Note 15 Budget

The budget was approved by the Board of Governors on April 27, 2005.

Note 16 Funds Held on Behalf of Others

As of June 30, 2006, the College had $472,138 (2005 - $262,630) in funds held in trust for other parties. These amounts are not included in these financial statements.

Note 17 Ancillary Operations

The College's ancillary operations revenue included in sales, rentals and services and ancillary operations direct expense are summarized as follows:

Revenue:		
Student residence	$ 1,980,374	$ 1,881,592
Food services facility rental contract	42,872	32,309
Bookstore	840,596	686,057
Theatre	999,717	687,864
Parking	234,665	195,877
	$ 4,098,[illegible]4	$ 3,483.699
Expense:		
Student residence	$ 1,741,993	$ 1,246,090
Food services facility rental contract	20,560	127
Bookstore	819,935	694,544
Theatre	1,258,851	1,033,875
Parking	209,563	123,540
	$ 4,050,902	$ 3,098,176

Note 18 Salaries and Benefits

	2006				2005
	Salary (Note 1)	Other cash benefits (Note 2)	Other non-cash benefits (Note 3)	Total	Total
Board Chairman	$ -	$ 4,510	$ 49	$ 4,559	$ 4,684
Board members - 10	-	23,029	23	23,052	25,891
President	130,000		24,152	154,152	153,547
Vice President - Instruction	116,646		24,782	141,428	131,801
Vice President - Finance and Administration	116,514		36,782	153,296	145,254
Dean, Academics	97,649		15,150	112,799	99,083
Dean, CUE	97,649		15,150	112,799	99,083
Dean, Trades	97,649		15,150	112,799	99,083

Notes:

1. Salary includes pensionable regular base pay.

2. Other cash benefits include honoraria.

3. Employer share of all employee benefits and contributions or payments made on behalf of employees including pension, automobile allowances, health care, dental, vision, and group life insurance, accidental death dismemberment insurance and other allowances.

Note 19 Changes in Non-Cash Working Capital

	2006	2005
Short-term investments	$ (4,951,494)	$ (810,500)
Accounts receivable	(805,303)	(527,921)
Inventories	(84,009)	18,482
Prepaid expenses	(20,119)	(31,637)
Accounts payable and accrued liabilities	4,038,244	(992,189)
Accrued vacation pay	74,339	73,234
Unearned revenue	167,769	49,266
Deferred contributions	1,274,266	(1,382,666)
	$ (306,307)	$ (3,603,931)

Note 20 Commitments and Contractual Obligations

As at June 30, 2006 the College has contractual commitments of $31,447,610 relating to the Syncrude Sports and Wellness centre project.

Note 21 Pension Costs

The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable of $1,469,552 for the year ended June 30, 2006 (2005 - $1,255,808). At December 31, 2005, the Local Authorities Pension Plan reported a deficit of $863,558,000 (2004 – deficit of $1,288,924,000). January 1, 2005, the employers' contribution rates were increased further by .77%.

Note 22 Financial Instruments

The College as part of its operations carries a number of financial instruments. It is management's opinion that the College is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed. The carrying amounts of accounts receivable, accounts payable, accrued liabilities, vacation pay, and current portion of long-term debt approximate their fair value due to the short-term maturities and market interest rates of these items.

The fair values of the College's investments are based on cash surrender value, and described in Note 4.

The carrying value of the College's long-term debt approximates its fair value, as there have been no significant changes in lending rates or other conditions.

Note 23 Related Party Transactions

(a) Related Party Transactions – Keyano College Foundation ("the Foundation")

The Keyano College Foundation is a registered charitable organization, and receives donations from various sources for the advancement of Keyano College.

The Foundation financial statements (which are prepared using the Restricted Fund method of revenue recognition) are not consolidated in the College's financial statements. The financial summaries of the unconsolidated entity as at June 30, 2006 and 2005 are as follows:

Financial Position	2006	2005
Total assets	$ 3,280,866	$ 3,742,355
Total liabilities	$ 35,229	$ 20,919
Net assets	$ 3,245,637	$ 3,721,436

All of the Foundation's net assets must be provided to the College or used for the College's benefit. As at June 30, 2006, $2,898,442 (2005 - $3,313,348) of the Foundation's net assets are restricted for College programs.

Results of Operations	2006	2005
Revenue	$ 2,373,364	$ 2,743,687
Expenses	2,849,163	2,100,146
Excess of revenue over expenses	$ (475,799)	$ 643,541

Total expenses include contributions of $2,051,746 (2005 – $1,498,065) to the College.

Cash Flows	2006	2005
Cash from operations and increase (decrease) in cash	$ (46,584)	$ 84,394

Note 23 Related Party Transactions (continued)

Total revenue includes contributions from the College of $466,887 (2005 - $357,978) toward salaries and other operating costs of the Foundation. In addition, the College provided certain administrative services and accommodations at no cost to the Foundation.

(b) The College is a provincial corporation as all the members of the Board of Governors are appointed either by the College Act or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education.

(c) Transactions between the College and Province are included in the following balances as at June 30, 2006.

	Revenue	Deferred contributions	Unamortized Deferred Capital Contributions
Operating grant	$ 22,240,924	$ 41,620	$ -
Infrastructure grant	589,218	10,490,891	5,149,641
Access grant	1,174,109	70,464	-
Apprenticeship grant	451,618	561,134	198,188
Other grants	1,114,097	341,175	44,707
Total	$ 25,569,966	$ 11,505,284	$ 5,392,536

Note 24 Approvals of Financial Statements

The Board of Governors approved these financial statements.

Lakeland College

Financial Statements

June 30, 2006

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Lakeland College

I have audited the statement of financial position of Lakeland College as at June 30, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
October 13, 2006

LAKELAND COLLEGE

STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2006

	2006	2005
ASSETS		
Cash and short-term investments (Note 5)	$ 10,378,437	$ 2,529,951
Accounts receivable & Prepaids	4,304,554	2,406,105
Inventories (Note 3)	834,611	875,836
Current portion of loans receivable (Note 4)	-	3,467
	15,517,602	5,815,359
Investments (Note 5)	4,373,750	4,264,096
Patronage dividends receivable	12,817	12,817
Capital assets (Note 6)	57,081,578	58,150,425
	$ 76,985,747	$ 68,242,697
LIABILITIES AND NET ASSETS		
Accrued vacation pay	$ 1,813,986	$ 1,686,144
Accounts payable and accrued liabilities	3,775,873	3,268,560
Unearned revenue (Note 7)	1,575,593	1,149,841
Deferred contributions (Note 8)	846,680	1,865,608
Current portion of long-term debt (Note 11)	175,505	331,804
	8,187,637	8,301,957
Deferred capital contributions (Note 9)	4,700,073	521,879
Unamortized deferred capital contributions (Note 10)	41,854,320	42,658,400
Long-term debt (Note 11)	2,400,000	2,555,209
	57,142,030	54,037,445
Net assets:		
Unrestricted	901,511	(88,505)
Internally restricted (Note 12)	4,513,877	-
Invested in capital assets	12,651,753	12,605,012
	18,067,141	12,516,507
Endowments (Note 13)	1,776,576	1,688,745
	19,843,717	14,205,252
	$ 76,985,747	$ 68,242,697

The accompanying notes are part of these financial statements.

LAKELAND COLLEGE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 19)	Actual	Actual
Revenue:			
Grants (Note 14)	$ 23,310,214	$ 25,322,890	$ 22,807,252
Tuition and related fees	10,712,103	11,431,768	11,177,624
Sales, rentals and services (Note 15)	3,845,373	4,980,475	4,514,590
Amortization of deferred capital contributions (Note 10)	2,430,000	2,548,327	2,416,063
Contract revenue	2,481,100	3,441,261	2,280,546
Investment income (Note 16)	410,000	538,000	548,095
Donations	139,200	205,354	146,330
Other	1,708,295	1,776,548	1,618,753
Gain on disposal of assets	-	12,575	-
	45,036,285	50,257,198	45,509,253
Expense (Note 17):			
Salaries and benefits (Note 18)	24,629,071	24,681,081	25,939,392
Supplies and services	11,719,731	12,668,833	11,687,450
Amortization of capital assets	4,814,804	4,549,305	4,725,410
Utilities	1,943,058	2,028,331	1,949,754
Severance payments	-	333,074	1,475,991
Interest expense	225,360	262,437	277,918
Scholarships and bursaries	203,520	183,503	238,833
Loss on disposal of assets	-	-	41,871
	43,535,544	44,706,564	46,336,619
Excess(Deficiency) of revenue over expenses.	$ 1,500,741	$ 5,550,634	$ (827,366)

The accompanying notes are part of these financial statements.

LAKELAND COLLEGE

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	2006					2005
	Unrestricted	Internally Restricted (Note 12)	Invested in Capital Assets	Endowments	Total	Total
Excess of revenue over expense	$ 5,550,634	$ -	$ -	$ -	$ 5,550,634	$ (827,366)
Endowment contributions	-			87,831	87,831	149,038
Transfers:					-	-
Amortization of internally funded capital assets	2,000,978		(2,000,978)		-	-
Acquisition of internally funded capital assets	(1,890,315)		1,890,315		-	-
Disposal of internally funded					-	-
Repayment of Loans	(311,508)		311,508		-	-
From internally restricted	(4,513,877)	4,513,877			-	-
Net book value of capital asset disposals	154,104		(154,104)		-	-
(Decrease) increase in assets	990,016	4,513,877	46,741	87,831	5,638,465	(678,328)
Net assets beginning of year	(88,505)	-	12,605,012	1,688,745	14,205,252	14,883,580
Net assets at end of year	$ 901,511	$ 4,513,877	$ 12,651,753	$ 1,776,576	$ 19,843,717	$ 14,205,252

LAKELAND COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
OPERATING ACTIVITIES		
Surplus (Deficiency) of revenue over expense	$ 5,550,634	$ (827,366)
Non-cash transactions		
Amortization of capital assets	4,549,305	4,725,410
Amortization of deferred capital contributions (Note 10)	(2,548,327)	(2,416,063)
Loss (Gain) on disposal of capital assets	(12,575)	41,871
(Increase) Decrease in patronage dividends receivable	-	(5,595)
	7,539,037	1,518,257
Net change in non-cash working capital	(1,815,245)	749,717
Cash provided by operating activities	5,723,792	2,267,974
INVESTING ACTIVITIES		
Acquisition of capital assets		
Internally and debt funded	(1,890,315)	(1,400,917)
Externally funded	(1,744,248)	(284,772)
(Increase) Decrease in investments	(109,654)	1,312,136
Proceeds from disposal of capital assets	166,680	67,635
Cash used in investing activities	(3,577,537)	(305,918)
FINANCING ACTIVITIES		
Endowment contributions	87,831	149,038
Proceeds from computer loan program	3,467	7,184
Repayment of long-term debt	(311,508)	(802,890)
Repayment of long-term debt on employee computer loan	-	(14,595)
Capital contributions received (Note 9)	5,922,441	370,126
Cash (used in) provided by financing activities	5,702,231	(291,137)
INCREASE IN CASH AND INVESTMENTS	7,848,486	1,670,919
CASH AND INVESTMENTS AT BEGINNING OF THE YEAR	2,529,951	859,032
CASH AND INVESTMENTS AT END OF THE YEAR	$ 10,378,437	$ 2,529,951

The accompanying notes are part of these financial statements.

Note 1 Authority and Purpose

Lakeland College (the "College") operates under the authority of the Post Secondary Learning Act, Chapter P-19.5., Statutes of Alberta, 2003. The College, as an inter-provincial institution, provides quality educational services responsive to the needs of students in relation to the workplace, community and society. The College is exempt from the payment of income taxes under section 149 of the Income Tax Act and is a registered charity.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Operating grants are recognized in the period when receivable. Operating grants received for a future period are deferred until that future period and are reported as deferred contributions.

Amounts received for tuition fees and the sale of goods and services are recognized as revenue at the time the goods are delivered or the services are provided.

Capital grants and capital donations are recorded as deferred capital contributions until the amounts are invested in capital assets. Amounts invested representing funded capital assets are transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense for the funded capital assets is recorded.

Unrestricted cash donations are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributors. Any externally restricted contributions containing stipulations that the amounts should be permanently maintained, are recorded as a direct increase to net assets.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

b) Capital Assets

Purchased capital assets are recorded at cost. Donated assets are recorded at their fair value when donated. Capital assets are amortized on a straight-line basis over the following estimated average useful lives:

Buildings and site improvements	3 - 40 years
Leasehold improvements	30 - 32 years
Furniture, equipment and library	10 years
Vehicles, computers and telecommunication equipment	5 years

(c) Inventories

Livestock inventory is recorded at net realizable value. All other inventories are valued at the lower of cost and net realizable value.

(d) Employee Future Benefits

The College participates in the Province of Alberta's Local Authority and the Management Employees Pension Plans. These pension plans are multi-employer defined benefit plans that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the Local Authority and the Management Employees Pension Plans. The College's portion of the pension plans' deficit or surplus is not recorded by the College.

(e) Financial Instruments

The carrying value of cash, receivables and payables, and accruals approximate fair value due to the relatively short periods to maturity of the instruments.

(f) Investments

Short-term investments are carried at the lower of cost or market value.
Long-term investments are recorded at cost unless there is an other than temporary impairment in the value of the investment.

(g) Pledges Receivable

Pledges receivable are not recorded as assets in these financial statements.

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Note 3 Inventories

Inventories consist of:

	2006	2005
Livestock	$ 323,910	$ 275,425
Bookstore	347,196	389,065
Firefighting agents	51,322	53,189
Fuels	67,133	49,974
Course guides	7,394	20,153
Farm	36,131	87,578
Quip shop	1,525	452
	$ 834,611	$ 875,836

Note 4 Loans Receivable

	2006	2005
Employee loans receivable	$ -	$ 3,467
Less: current portion	-	(3,467)
	$ -	$ -

The loans were receivable from employees in bi-weekly installments of $675 in 2006 ($675 in 2005) including interest at a rate of 8.5% per annum. The advances were made under the provisions of an employee computer purchase program with installments made through payroll deductions.

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Note 5 **Cash and Investments**

	2006		2005	
	Cost	Market	Cost	Market
Bank balance (overdraft)	$ 2,473,562	$ 2,473,562	$ 280,516	$ 280,516
Money market investments	5,500,000	5,500,000	-	-
Bonds	2,691,000	2,634,904	2,870,066	2,897,905
Equities	4,087,625	5,221,740	3,643,465	4,516,696
	$ 14,752,187	$ 15,830,206	$ 6,794,047	$ 7,695,117
Less: long-term amounts	(4,373,750)		(4,264,096)	
	$ 10,378,437		$ 2,529,951	

The College's investment strategy is to meet expenditure requirements within one year, investing such funds in liquid investments. Short term investment guidelines are as follows:

a) Assure necessary cash flow.
b) Maximize rate of return.
c) Minimize risk of permanent capital impairment.
d) Preserve capital in nominal and real terms over the long term.
e) Generate a return which is competitive.

The balance of funds are invested for a longer term with a mix of maturities between one and ten years. Long term investments guidelines are as follows:

a) No more than 10% of total portfolio can be invested in any one Money market issue except those guaranteed by Government of Canada or the Province of Alberta.
b) No more than 10% of total portfolio can be invested in any one government bond issue except those issued by Government of Canada or the Province of Alberta.
c) No more than 5% of total portfolio in any one corporate bond issue.
d) No more than 5% of equity component to be invested in any one equity issue.
e) Quality constraint on Money market securities of at least a rating of R1 or A1 by the Canadian Bond Rating Service or Dominion Bond Rating Service.
f) Quality constraint on all Corporate and Provincial Bonds of at least a rating of A low by a recognized bond rating service.

The rate of return on the investments for this fiscal year is 5.76% (in 2005, 8.76%).
Money Market / Monthly Income Fund Investments have an average effective yield of 9.28% (in 2005, 15.48%) with a term to maturity of less than one year.
Pooled Bond Funds have an average effective yield of 4.06% (in 2005, 2.22%) and weighted average term to maturity of more than one year.

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Note 6 Capital Assets

Capital assets consist of:

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,612,439	$ -	$ 1,612,439	$ 1,612,439
Buildings	79,706,522	(39,947,891)	39,758,631	40,499,930
Site improvements	17,194,432	(9,484,278)	7,710,154	8,091,219
Furniture & equipment	10,631,807	(7,041,095)	3,590,712	3,678,162
Computers & telecommunications equipment	8,837,680	(6,578,798)	2,258,882	2,265,367
Vehicles	2,117,089	(1,453,559)	663,530	333,045
Leasehold improvements	1,079,069	(187,758)	891,311	923,500
Milk quotas	220,391	-	220,391	220,391
Library	3,384,823	(3,009,295)	375,528	526,372
	$ 124,784,252	$ (67,702,674)	$ 57,081,578	$ 58,150,425

The Province of Alberta has been granted an option to purchase for $1 the whole or any part of the land, buildings and site improvements that it transferred to the College in 1982.
For the consideration of $1, Lakeland College sold its interest in six acres of land to the Town of Vermilion for the Town's use of building a Community Centre.

Note 7 Unearned Revenue

Unearned revenue consists of:

	2006	2005
Tuition and residence fees	$ 1,271,497	$ 1,026,490
Contract advances	144,631	51,831
Extension and community education course fees	57,040	48,997
Projects & programs	102,425	22,523
	$ 1,575,593	$ 1,149,841

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Note 8 **Deferred Contributions**

Changes in deferred contributions are as follows:

	2006	2005
Restricted donations & contributions received during the year:		
Conditional grants	$ 1,433,203	$ 1,564,024
Donations in kind	123,864	31,514
Restricted Donations	10,431	
Transfer (to) from deferred capital contributions (Note 9)	(998,759)	(203,836)
Scholarships	92,172	87,653
Interest on endowments (Note 16)	106,599	113,080
	767,510	1,592,435
Transferred to revenue:		
Conditional grants (Note 14)	(1,502,509)	(1,703,345)
Capital donations	(19,982)	(11,468)
Donations in Kind	(98,446)	
Scholarships and bursaries	(165,501)	(202,034)
	(1,786,438)	(1,916,847)
Increase (decrease) during the year	(1,018,928)	(324,412)
Balance at beginning of the year	1,865,608	2,190,020
Balance at end of the year	$ 846,680	$ 1,865,608
The balance consists of funds restricted for:		
Conditional programs	566,920	1,619,118
Scholarships and bursaries	246,243	234,669
College development	33,517	11,821
	$ 846,680	$ 1,865,608

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Note 9 Deferred Capital Contributions

Changes in deferred capital contributions are as follows:

	2006	2005
Contributions received during the year	$ 4,923,682	$ 166,290
Transferred from (to) deferred contributions (Note 8)	998,759	203,836
Total contributions received in year	5,922,441	370,126
Transferred to unamortized deferred contributions (Note 10)	(1,744,247)	(284,772)
Balance at beginning of the year	521,879	436,525
Balance at end of the year	$ 4,700,073	$ 521,879

Note 10 Unamortized Deferred Capital Contributions

	2006	2005
Transferred to revenue	$ (2,548,327)	$ (2,416,063)
Transferred from deferred capital contributions (Note 9)	1,744,247	284,772
	(804,080)	(2,131,291)
Balance at the beginning of the year	42,658,400	44,789,691
Balance at the end of the year	$ 41,854,320	$ 42,658,400

Note 11 Long-Term Debt

	2006	2005
(a) Alberta capital financing authority	$ 2,520,000	$ 2,640,000
(b) PeopleSoft	55,505	247,013
	2,575,505	2,887,013
Less: current portion	(175,505)	(331,804)
	$ 2,400,000	$ 2,555,209

(a) The ACFA loan is a 25 year debenture secured by residences with value of $2,150,920 and investments of $1,000,000. The debenture incurs interest at 6.5% per annum.

(b) The PeopleSoft loan is repayable at $18,500 per month for 5 years.

Aggregate annual payments of long-term debt are as follows:

2006-07	$ 175,505
2007-08	120,000
2008-09	120,000
2009-10	120,000
2010-11 and subsequent	2,040,000
	$ 2,575,505

Note 12 Net Assets Internally Restricted by the Board

Net assets internally restricted by the Board represent amounts set aside by the College's Board of Governors to be used for the following designated purposes. These amounts are not available for other purposes without the approval of the Board.

	2006	2005
Major maintenance and equipment	$ 2,058,878	$ -
Delivery initiatives	1,442,521	-
Long term delivery initiatives	1,012,477	-
	$ 4,513,877	$ -

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Note 13 **Endowments**

External endowments consist of funds restricted for:

	2006	2005
College development	$ 420,089	$ 420,089
Scholarships and bursaries	1,356,487	1,268,656
	$ 1,776,576	$ 1,688,745

Funds are required to be maintained in perpetuity.

Note 14 **Grants**

Grant revenue consists of:	2006 Budget	2006 Actual	2005 Actual
Advanced Education			
General Operating	$ 21,472,219	$ 22,022,052	$ 20,207,589
Conditional (Note 8)	812,277	1,502,509	1,703,345
Other Government Grants	10,400	747,715	30,223
Province of Saskatchewan			
General Operating	1,015,318	1,050,614	866,095
	$ 23,310,214	$ 25,322,890	$ 22,807,252

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Note 15 Sales, Rentals and Services

Revenue and direct expense for sales, rentals and services consists of:

	2006		2005
	Budget	Actual	Actual
Revenue:			
Residences	$ 2,221,926	$ 2,304,975	$ 2,154,126
Bookstores	1,004,673	998,167	1,113,479
Cafeterias	84,006	682,960	656,570
Conference Services	214,000	271,890	221,363
Printing	4,500	10,107	8,193
Swimming Pools	156,161	496,964	201,636
Other	160,107	215,412	159,223
	3,845,373	4,980,475	4,514,590
Direct Expenses:			
Residences	2,265,804	1,835,565	1,696,478
Bookstores	935,152	1,087,182	1,240,167
Cafeterias	108,879	722,031	661,665
Conference Services	221,263	269,849	219,780
Printing	2,250	1,252	22,548
Swimming Pools	257,269	872,194	261,254
Other	140,276	132,281	205,629
	3,930,893	4,920,354	4,307,521
Excess (Deficiency) of Revenue over Direct Expenses	$ (85,520)	$ 60,121	$ 207,069

Note 16 Investment Revenue

	2006	2005
Investment Income Earned	$ 637,169	$ 462,783
Gain on Sale of Investments	7,430	198,389
Investment Income Before Transfer	644,599	661,172
Less: amount transferred to deferred contributions (Note 8)	$ (106,599)	$ (113,077)
Investment Income	$ 538,000	$ 548,095

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Note 17 Operating Expense

Operating expense is summarized as follows:

	2006		2005
	Budget	Actual	Actual
Instruction	$ 17,114,671	$ 17,921,423	$ 17,469,860
Amortization of capital assets	4,814,804	4,549,305	4,725,410
Cost of sales, rental & services (Note 15)	3,930,893	4,920,354	4,307,521
Facility operations and maintenance	2,839,447	3,551,503	4,027,933
Academic support	4,028,966	4,147,002	6,080,818
Institutional support	6,353,294	4,778,734	5,445,210
Student services	2,616,189	3,220,640	2,753,722
Computing services	1,837,280	1,617,603	1,526,145
	$ 43,535,544	$ 44,706,564	$ 46,336,619

Instruction encompasses all formal education and instructional program elements.
Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio-visual services. Institutional support includes all activities that provide institution-wide support to other programs such as the President's office, human resources and financial services. Student Services includes all activities and services for the student body.

Note 18 Salaries and Benefits

The following information is prepared in accordance with Treasury Board Directive No. 03/04 and only includes salary and benefit information for the Board and Executive Management:

	2006					2005	
	Number of Individuals	Base Salary (1)	Other Cash Benefits (2)	Other Non-Cash Benefits (3)	Total	Number of Individuals	Total (Revised)
Chairman of Board	1	$ -	$ 24,614	$ 1,089	$ 25,703	1	$ 10,997
Other Board	11	-	42,346	961	43,307	11	34,795
		-	66,960	2,050	69,010		45,792
President	1	143,000		26,234	169,234	1	206,653
VP Academics	1	96,250		15,030	111,280	1	149,585
VP Finance and Operations	1	125,000	-	17,234	142,234	1.3	135,585
Executive Director External Relations	1	118,000	15,222	24,904	158,126	1	147,368
Executive Director Strathcona	0	-	-	-	-	1	125,371
		482,250	15,222	83,402	580,874		764,562
Salaries & Ben Exp in year.		$ 482,250	$ 82,182	$ 85,452	$ 649,884		$ 810,354

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include bonuses, overtime, lump sum payments and honoraria.

(3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disability plan, professional memberships and tuition.
Other non-cash benefits figure also includes the Employer's share of the cost of additional benefits including sabbaticals or other special leave with pay, financial planning services, retirement planning services, concessionary loans, travel allowances, car allowances, and club memberships.

Note 19 Budget

The operating and capital budgets were approved by the Board of Governors on June 22, 2005. The operating budget does not include revenues and expenses for ad hoc programs negotiated subsequent to budget approval. The approved capital budget provided $1,500,000 (actual $1,890,315) for internally funded acquisitions of capital assets.

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Note 20 Commitments

The College has the following commitments requiring future minimum annual payments for years ending June 30 as follows:

2006-07	$ 689,485
2007-08	653,795
2008-09	270,706
2009-10	161,970
2010-11	11,209
	$ 1,787,166

Note 21 Related Party Transactions

Province of Alberta

The College is a Provincial Corporation as all the members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the College and the Province are disclosed in Note 14 to these financial statements. In addition, the deferred contribution and deferred capital contribution balance includes $4,511,644 (2005 - $2,491,286) of conditional grants provided by the Province.

The College provided courses to other provincial colleges and participated in the development, sale and offering of certain courses with other public colleges. The revenues and expenses incurred for these have been included in the consolidated statement of operations but have not been separately quantified. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair market value.

Note 22 Pension Liability and Expense

The College participates in two multi-employer pension plans, Local Authorities Pension Plan (LAPP) and the Management Employees Pension Plan (MEPP). The expense for these plans is $1,283,046 for the year ended June 30, 2006 (2005 - $1,256,233).

1) Local Authorities Pension Plan
As at December 31, 2005, the LAPP reported a deficiency of $863,558,000 (2004 - $1,288,924,000). Effective January 1, 2006, the employers' contribution rate was increased by 0.35%.

2) Management Employee Pension Plan
As at December 31, 2005 the MEPP reported a deficiency of $165,895,000 (2004 - $268,101,000).

Note 23 Contingent Liabilities

The College, in the conduct of its normal activities, is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be predicted at this time, it is the opinion of the administration that adequate provision for these proceedings has been made in the College's accounts. It is believed that the resolution of the proceedings will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of these proceedings, such amounts would be expensed as the related amounts become known to the College.

Note 24 Comparative Figures

The 2005 figures have been reclassified where necessary to conform to 2006 presentation.

Note 25 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

LETHBRIDGE COMMUNITY COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Revenue and Expense

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Lethbridge Community College

I have audited the consolidated statement of financial position of Lethbridge Community College as at June 30, 2006 and the consolidated statements of revenue and expense, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 27, 2006

LETHBRIDGE COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2006

	2006	2005
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 12,305,659	$ 2,547,328
Accounts receivable (Note 4)	2,030,228	1,160,254
Accrued investment income	86,859	59,653
Inventories (Note 5)	583,022	554,621
Prepaid expenses	413,552	314,978
	15,419,320	4,636,834
Non-current cash and investments (Note 3)	13,272,743	10,829,804
Capital assets (Note 6)	52,426,830	51,156,608
	$ 81,118,893	$ 66,623,246
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 3,759,189	$ 2,516,336
Accrued vacation pay	830,933	742,706
Unearned revenue (Note 7)	1,594,929	946,239
Deferred contributions (Note 8)	2,217,296	1,302,920
Current portion of debenture payable (Note 10)	159,708	150,491
	8,562,055	5,658,692
External capital contributions (Note 8)	5,073,583	473,961
Debenture payable (Note 10)	5,794,824	5,954,532
Unamortized external capital contributions (Note 11)	35,158,151	33,332,948
	46,026,558	39,761,441
	54,588,613	45,420,133
Net assets:		
Operating:		
Unrestricted	7,282,367	2,815,323
Internally restricted (Note 12)	2,317,193	1,957,256
	9,599,560	4,772,579
Investment in capital assets (Note 6)	11,314,147	11,718,637
Endowments (Note 13)	5,616,573	4,711,897
	26,530,280	21,203,113
	$ 81,118,893	$ 66,623,246

The accompanying notes are part of these consolidated financial statements.

Commitments and contingencies (Note 21)

LETHBRIDGE COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget	Actual	Actual
	(Note 22)		
Revenue:			
Grants (Note 14)	$ 28,499,929	$32,250,537	$ 28,146,180
Tuition and related fees	17,070,768	15,732,472	15,916,466
Sales, rentals and services (Note 15)	7,422,107	7,021,240	6,894,917
Contract programs	2,047,748	1,951,264	1,980,363
Investment income (Note 16)	419,008	661,395	458,471
Donations	272,852	324,312	226,003
Amortization of external capital contributions (Note 11)	2,419,550	2,247,272	2,116,373
	58,151,962	60,188,492	55,738,773
Expense (Note 17):			
Salaries and benefits (Note 18)	36,237,638	36,212,336	34,266,364
Supplies and services	11,269,798	9,941,068	8,559,751
Cost of sales, rentals and services (Note 15)	3,223,971	2,870,013	3,019,071
Utilities	1,728,970	1,548,185	1,677,427
Scholarships and bursaries	150,000	268,521	133,593
Debenture interest	371,460	370,860	379,723
Amortization of capital assets	4,308,873	4,507,902	4,159,746
	57,290,710	55,718,885	52,195,675
Excess of revenue over expense	$ 861,252	$ 4,469,607	$ 3,543,098

LETHBRIDGE COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	2006					2005
	Unrestricted	Internally Restricted (Note 12)	Investment in Capital Assets (Note 6)	Restricted for Endowment Purposes (Note 13)	Total	Total
Balance at beginning of year	$ 2,815,323	$ 1,957,256	$ 11,718,637	$ 4,711,897	$ 21,203,113	$ 17,377,785
Excess of revenue over expense	4,469,607	-	-	-	4,469,607	3,543,098
Transfer to net assets internally restricted	(359,937)	359,937	-	-	-	-
Capital assets acquired from internal funds	(1,711,856)	-	1,711,856	-	-	-
Amortization of internally funded capital assets	2,266,837	-	(2,266,837)	-	-	-
Repayment of debenture related to capital assets	(150,491)	-	150,491	-	-	-
Transfer to endowments	(47,116)	-	-	47,116	-	-
Endowment contributions received	-	-	-	857,560	857,560	282,230
Balance at end of year	$ 7,282,367	$ 2,317,193	$ 11,314,147	$ 5,616,573	$ 26,530,280	$ 21,203,113

LETHBRIDGE COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 22)	Actual	Actual
Cash flows generated from operating activities:			
Excess of revenue over expense	$ 861,252	$ 4,469,607	$ 3,543,098
Amortization of capital assets	4,308,873	4,507,902	4,159,746
Amortization of external capital contributions	(2,419,550)	(2,247,272)	(2,116,373)
	2,750,575	6,730,237	5,586,471
Changes in non-cash working capital:			
Accounts receivable	-	(869,974)	(76,707)
Accrued investment income	-	(27,206)	(17,253)
Inventories	-	(28,401)	(57,750)
Prepaid expenses	-	(98,574)	(35,530)
Accounts payable and accrued liabilities	-	1,242,853	972,195
Accrued vacation pay	-	88,227	25,182
Unearned revenue	-	648,690	(81,620)
Deferred contributions	-	914,376	51,989
	-	1,869,991	780,506
	2,750,575	8,600,228	6,366,977
Cash flows used by investing activities:			
Acquisition of capital assets:			
From internal funds	(1,514,114)	(1,711,856)	(1,958,945)
From external funds	(29,500)	(4,072,475)	(1,444,512)
Proceeds from disposal of capital assets	-	6,207	22,081
Decrease (Increase) in non-current cash and investments	-	(2,442,939)	(2,899,292)
	(1,543,614)	(8,221,063)	(6,280,668)
Cash flows generated from financing activities:			
Capital contributions received	-	9,037,346	394,472
Transfer from (to) deferred contributions	46,740	(365,249)	(129,625)
Debenture principal repayment	(153,563)	(150,491)	(141,805)
Endowment contributions received	500,000	857,560	282,230
	393,177	9,379,166	405,272
Increase in current cash and cash equivalents	1,600,138	9,758,331	491,581
Current cash and cash equivalents, beginning of year	1,652,783	2,547,328	2,055,747
Current cash and cash equivalents, end of year	$ 3,252,921	$ 12,305,659	$ 2,547,328

Note 1 Authority and Purpose

Lethbridge Community College was established as a board governed institution on April 17, 1957. The College operates under the authority of the Post Secondary Learning Act, Chapter P19.5, Statutes of Alberta 2003. The College provides educational programs to serve the career education and training needs of students and employers and to respond to personal and community development needs through an extensive offering of general interest courses and public service outreach activities. The College is a registered charity and is exempt from payment of income tax.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Consolidated Statements

These consolidated financial statements include the accounts of Lethbridge Community College Foundation ("the Foundation"), which operates under the Companies Act of Alberta. The Foundation is a registered charity and is exempt from payment of income tax. Certain administrative services are provided by the College without charge to the Foundation.

The accounts of the two organizations have been consolidated to reflect the financial position and results of operations as though they were a single economic entity, since the Foundation solicits, receives and administers donations for the advancement of the College. Inter-entity balances and transactions have been eliminated on consolidation.

(b) Revenue Recognition

Operating contributions, including grants from the Province of Alberta, are recognized as revenue in the period when they become receivable. Operating contributions received for a future period are reported as deferred contributions and recognized as revenue in the subsequent period.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(b) Revenue Recognition (continued)

Capital contributions, including capital grants from the Province of Alberta, are recorded as external capital contributions until the amount is invested in capital assets. Amounts invested representing funded capital assets are then transferred to unamortized external capital contributions. Unamortized external capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the external capital contributions revenue are matched to indicate that the related amortization expense has been funded. Capital contributions invested in capital assets that will not be amortized are recognized as direct increases in net assets.

Externally restricted non-capital contributions and externally restricted interest earned on non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by external parties. If the contributors stipulate that the amounts cannot be expended, as is the case with endowments, the contributions are recorded as direct increases in net assets.

Donations which are not externally restricted are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Pledges are recorded in the year the donation is received.

Amounts received for tuition fees and sale of goods and services are classified as unearned and recognized as revenue at the time the goods are delivered or the services are provided.

(c) Net Assets Internally Restricted

Net assets internally restricted represent amounts set aside by the College Board of Governors, or by the Foundation Board of Directors, to be used for designated purposes.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Investments

Temporary investments are recorded at the lower of cost or market value.

Investments intended to be held for longer term are recorded at cost. Gains and losses on investments are recognized as realized or when there is an other than temporary decline in the value of the investment.

(e) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at the lower of cost and replacement value. Cost is determined using the weighted average method for the Bookstore and the first in, first out method for all other inventories.

(f) Capital Assets

Capital assets are recorded at cost. Donated assets are recorded at fair value at the time of the donation.

Capital assets are amortized on a straight-line basis as follows:

Buildings and site improvements	40 years
Furnishings and equipment	10 years
Library	10 years
Motor vehicles	5 years
Computer equipment and systems software	5 years
Audio and visual equipment	2 years

The permanent art collection is recorded at the appraised value at the time of donation. The permanent art collection is not amortized. The collection is made up of numerous pieces of art that are held for display at the College.

Capital projects in progress are not amortized until the project is complete.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the pension plan. The College's portion of the pension plan's surplus or deficit is not recorded in the accounts.

(h) Financial Instruments

Unless otherwise noted, the carrying values of financial assets and liabilities approximate their fair values.

(i) Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(j) Asset Retirement Obligations

Lethbridge Community College is subject to regulations requiring the repair, removal and disposal of friable asbestos. The obligation under these regulations meets the definition of a conditional asset retirement obligation.

As a result of the longevity of the College's facilities, due in part to the College's maintenance procedures, and the fact that the College does not have plans for major changes that would require the removal of asbestos, the timing of the removal of asbestos in the College's facilities is indeterminate as at June 30, 2006. As a result, the College is currently unable to estimate the fair value of its asbestos removal and disposal obligation. Therefore, expenditures are recorded in accounts as they are incurred.

Note 3 Cash and Investments

The Board of Governors has approved an investment strategy with primary investment objectives being the preservation of capital and the generation of a competitive total return. The investment policy provides guidelines on the asset mix, diversification, quality and nature of securities, and the term of the fixed income securities. The guidelines are as follows:

a) Asset Class

Cash equivalents	from 0% to 60% of total portfolio
Fixed income securities	from 40% to 80% of total portfolio
Equities	from 0% to 50% of total portfolio

To measure investment performance and identify the return attributed to the asset mix and asset selection decisions, the College has established a portfolio benchmark of 5% cash equivalents, 60% fixed income securities and 35% equities. Further, it measures cash equivalent returns against the return from the historical treasury bill rate over a rolling four year period, fixed income returns against the return for the Scotia McLeod Universe Index, and equity returns against the return for the TSX 300 Index, S&P 500 Index for U.S. equities and the Morgan Stanley Capital International, Europe, Australia and Far East Index for international equities.

b) Diversification

No more than 10% of the total portfolio will be invested in any one money market issuer other than investments in issuers with a minimum BBB rating as defined by a recognized bond rating service or those guaranteed by the Government of Canada or the Province of Alberta. With these conditions, the maximum investment may be extended to 20% of the total portfolio. No more than 10% of the portfolio will be invested in any one government bond issue other than the Government of Canada or the Province of Alberta. A 30% maximum is placed on any single industry investment and a 4% maximum on any single issuer in the private sector.

Note 3 Cash and Investments (continued)

c) Quality and Nature of Securities

All money market securities will be rated "R-1" or equivalent by the Canadian Bond Rating or the Dominion Bond Rating Services. All corporate and government bonds will carry a rating of a minimum equivalent BBB rating by a recognized bond rating service.

	2006		2005	
	Carrying Value	Fair Value(i)	Carrying Value	Fair Value(i)
Cash and temporary investments:				
Cash	$ 12,569,804	$ 12,569,804	$ 3,694,367	$ 3,694,367
Short term investments	67,599	67,458	573,946	574,581
	12,637,403	12,637,262	4,268,313	4,268,948
Fixed income:(ii)				
Federal guaranteed bonds	4,563,416	4,435,581	2,336,086	2,350,217
Provincial guaranteed bonds	1,246,826	1,201,011	1,747,613	1,796,519
Corporate bonds	3,794,383	3,679,683	2,320,232	2,389,269
	9,604,625	9,316,275	6,403,931	6,536,005
Equities:(i)				
Canadian	2,236,736	2,520,734	1,233,449	1,398,556
Foreign	1,099,638	1,057,779	1,471,439	1,352,041
	3,336,374	3,578,513	2,704,888	2,750,597
	25,578,402	25,532,050	13,377,132	13,555,550
Less amounts not available for current purposes	13,272,743	13,226,391	10,829,804	11,008,222
Cash and cash equivalents	$ 12,305,659	$ 12,305,659	$ 2,547,328	$ 2,547,328

(i) On a total basis, the market value of all investments is $46,352 less than (2005 - $178,418 more than) carrying value. Within the investment portfolio, foreign equities, at market value of $1,057,779, are $41,859 less than (2005 - $119,398) carrying value. The carrying value of certain securities have been written down to fair value because management has concluded, based on review of market information, that there is indication of impairment that is other than temporary. The write down of $45,422 in investment carrying value is netted against investment income on the statement of revenue and expense and a reduction in the value of non-current cash and investments on the statement of financial position. The carrying values of the remaining securities have not been written down to fair value as management has concluded that there is no obvious indication of impairment that is other than temporary.

Note 3 Cash and Investments (continued)

(ii) The terms of the bond portfolio range from 1 year to 9 years with an average term to maturity of 5 years (2005 - 5 years). The average effective yield on the bond portfolio is 5.23% (2005 – 5.11%).

Note 4 Accounts Receivable

	2006	2005
Contracts programs	$ 407,064	$ 549,121
Province of Alberta:		
Alberta Advanced Education	95,544	94,614
Alberta Infrastructure and Transportation	72,439	64,473
Other Alberta Government departments	95,662	74,800
Government of Canada - Goods and Services Tax	180,304	89,887
Tuition fees	979,327	177,606
Other	199,888	109,753
	$ 2,030,228	$ 1,160,254

Note 5 Inventories

	2006	2005
Bookstore	$ 431,519	$ 394,209
Cafeteria	51,461	44,877
Printing	2,508	21,712
Distance Education Centre	8,934	10,619
Other	88,600	83,204
	$ 583,022	$ 554,621

Note 6 Capital Assets

a) Summary of Cost and Net Book Value

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 475,994	$ -	$ 475,994	$ 432,465
Building and site improvements	88,501,353	47,738,456	40,762,897	41,860,225
Furnishings and equipment	11,229,490	9,053,025	2,176,465	2,069,298
Library	1,207,619	943,951	263,668	247,021
Motor vehicles	948,122	824,102	124,020	171,332
Computer equipment and systems software	12,499,436	7,152,686	5,346,750	5,924,013
Audio and visual equipment	610,365	593,860	16,505	12,620
Permanent art collection	439,634	-	439,634	439,634
	115,912,013	66,306,080	49,605,933	51,156,608
Capital projects in progress (i)	2,820,897	-	2,820,897	-
	$ 118,732,910	$ 66,306,080	52,426,830	51,156,608
Less: Construction financed by debenture			5,954,532	6,105,023
Unamortized external capital contributions			35,158,151	33,332,948
Net investment in capital assets			$ 11,314,147	$ 11,718,637

(i) Capital projects in progress:

During the year, major capital projects were commenced which will be capitalized as part of building and site improvements when completed. These projects are summarized as follows:

Cousins Building conversion (Note 21)	$ 2,629,871
Andrews Building - Roof replacement	191,026
	$ 2,820,897

Note 6 Capital Assets (continued)

b) Capital Acquisitions

Capital acquisitions during the year included certain donations in kind at fair value of $522,435 (2005 - $68,885). During the year, the Chinook Regional Health Authority transferred ownership of its Fort MacLeod, Alberta Health Unit facility to the College for a nominal amount. The College has included this acquisition on its Capital Assets at fair value of $43,529 for Land and $440,861 for Buildings and Site Improvements.

Note 7 Unearned Revenue

	2006	2005
Contract programs	$ 365,094	$ 709,412
Tuition fees	1,107,583	192,750
Other	122,252	44,077
	$ 1,594,929	$ 946,239

Note 8 Deferred Contributions and External Capital Contributions

Deferred contributions and external capital contributions represent donations and contributions received relating to future years and unspent funds for externally restricted purposes. Changes in the balances are as follows:

	2006	2005
Contributions received:		
Grants, Province of Alberta	$9,352,885	$ 133,000
Other contributions	1,343,958	717,642
Investment income earned on net assets externally restricted for endowment purposes	218,789	197,609
Transferred to:		
Grants, Province of Alberta	(414,415)	(307,803)
Donations	(324,312)	(226,003)
Investment income (Note 16)	(218,789)	(197,609)
Endowments	(371,643)	-
Unamortized external capital contributions (Note 11)	(4,072,475)	(1,444,512)
Increase (decrease) during the year	5,513,998	(1,127,676)
Balance at beginning of year	1,776,881	2,904,557
Balance at end of year	$7,290,879	$1,776,881

The balances at end of year represent funds held for the following purposes:

	2006	2005
Deferred contributions:		
Scholarships, awards and bursaries	$1,203,261	$1,240,499
Enrolment planning envelope	935,086	57,206
Other	78,949	5,215
	2,217,296	1,302,920
External capital contributions:		
Conditionally funded projects: Buildings	4,842,181	299,062
Furniture and Equipment	153,574	66,160
Enrolment planning envelope	75,381	104,216
Endowment earnings	2,447	4,523
	5,073,583	473,961
	$7,290,879	$1,776,881

Note 9 Pension Costs

The College participates in the Local Authorities Pension Plan which is a multi-employer defined benefit plan. The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable of $2,121,806 for the year ended June 30, 2006 (2005 - $1,824,905).

Effective January 1, 2006, the employers' contribution rate was increased by 0.35% (2005 – 1.0%).

Note 10 Debenture Payable

The College Board received approval of the Lieutenant Governor in Council to borrow funds from the Alberta Capital Finance Authority (the "ACFA"), an authority controlled by the Province of Alberta, to finance the campus residence expansion project. A $6,625,000 debenture (the "debenture") dated February 23, 2001, was issued by the College in favor of ACFA. The debenture is secured by a security agreement dated February 23, 2001 between the College and ACFA pursuant to which the College granted, in favor of ACFA, a security interest in all present and after acquired intangibles, accounts, monies, book debts, instruments, claims or rights and insurance proceeds.

The debenture, bearing interest at the rate of 6.125% per annum, is to be repaid in annual installments of $524,424, principal and interest. The debenture is due March 1, 2027.

	2006	2005
Debenture payable	$ 5,954,532	$ 6,105,023
Less current portion	159,708	150,491
	$5,794,824	$ 5,954,532

The aggregate maturities of principal required over the next five years and to maturity are as follows:

2007	$ 159,708
2008	169,491
2009	179,872
2010	190,889
2011	202,581
Thereafter	5,051,991
Total debenture payable	$ 5,954,532

Note 11 Unamortized External Capital Contributions

Unamortized external capital contributions represent the external funds invested in capital assets which will be recognized as revenue in future periods. Changes in the unamortized external capital contributions balance are as follows:

	2006	2005
Balance at beginning of year	$ 33,332,948	$ 34,004,809
Add amount transferred from external capital contributions (Note 8)	4,072,475	1,444,512
Less amount amortized to revenue	(2,247,272)	(2,116,373)
Balance at end of year	$ 35,158,151	$ 33,332,948

Note 12 Net Assets Internally Restricted

Net assets internally restricted are held for the following purposes:

		Transfers to and from Unrestricted Net Assets		
	Balance at Beginning of Year	Deduct Funds Returned	Add Funds Appropriated	Balance at End of Year
Staff and program development	$ 557,380	$ 249,534	$ 352,761	$ 660,607
Foundation general reserve	52,892	1,329,542	1,326,496	49,846
College funded scholarships endowment earnings	133,879	5,000	10,233	139,112
Other endowment earnings	41,893	49,558	84,077	76,412
Kodiak Team fund	58,018	142,041	160,958	76,935
Other	-	1,545	1,545	-
	844,062	1,777,220	1,936,070	1,002,912
Capital replacement	1,113,194	4,249,491	4,450,578	1,314,281
	$ 1,957,256	$ 6,026,711	$ 6,386,648	$ 2,317,193

The net transfer from Unrestricted Net Assets for the year ended June 30, 2006 comprises:

Funds returned	$ 6,026,711
Funds appropriated	6,386,648
	$ (359,937)

Note 13 Endowments

Endowments consist of restricted donations to the College and internal allocations by the Board of Governors, the principal of which is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. Endowments comprise the following:

	2006			2005
	Externally Funded	Internally Funded	Total	Total
Ronald Tiffin Agricultural Endowment Fund	$ 1,115,115	$ 297,824	$ 1,412,939	$ 1,383,531
Scholarships	3,518,461	73,696	3,592,157	2,737,116
Kodiak Athletics Fund	208,327	82,038	290,365	281,429
Talbot Education Fund	115,565	46,175	161,740	157,084
Industrial Technology Fund	62,500	34,184	96,684	92,556
Native Canadian Fund	28,200	19,223	47,423	45,527
Environmental Fund	9,104	6,161	15,265	14,654
	$ 5,057,272	$ 559,301	$ 5,616,573	$ 4,711,897

Note 14 Grants

Grant revenue consists of amounts received from the following sources:

	2006		2005
	Budget (Note 22)	Actual	Actual
Alberta Advanced Education	$ 26,858,475	$ 30,557,394	$ 26,533,184
Alberta Infrastructure and Transportation	386,422	380,156	272,175
Other Alberta Government departments	605,629	744,470	754,335
Other Government of Canada sources	629,784	482,814	530,176
Other sources	19,619	85,703	56,310
	$ 28,499,929	$ 32,250,537	$ 28,146,180

Note 15 Sales, Rentals and Services

Sales, rentals and services revenue and direct expense are summarized as follows:

	2006					2005
		Direct Expense				
	Revenue	Cost of Sales	Other	Total Direct Expense	Net	Net
Sales, rentals and non-ancillary services	$ 935,042	$ 444,425	$ -	$ 444,425	$ 490,617	$ 328,914
Ancillary services (Note 17):						
Bookstore	2,629,779	1,943,507	211,489	2,154,996	474,783	492,115
Cafeteria	785,792	466,873	271,203	738,076	47,716	(1,589)
Residence	1,697,997	-	1,980,970	1,980,970	(282,973)	(89,124)
Parking	451,353	-	192,841	192,841	258,512	241,276
Meat Store	-	-	1,882	1,882	(1,882)	220
Daycare centre	219,987	-	236,737	236,737	(16,750)	(9,213)
Physical Education building	187,323	14,225	336,335	350,560	(163,237)	(97,847)
Health services	70,704	983	91,033	92,016	(21,312)	(12,666)
Athletics - special events	43,263	-	43,225	43,225	38	(711)
	6,086,198	2,425,588	3,365,715	5,791,303	294,895	522,461
	$ 7,021,240	$ 2,870,013	$ 3,365,715	$ 6,235,728	$ 785,512	$ 851,375

Note 16 Investment Income

	2006	2005
Investment earnings on net assets restricted for endowment purposes (Note 8)	$ 218,789	$ 197,609
Add investment income from other sources	442,606	260,862
Total investment income recognized as revenue	$ 661,395	$ 458,471

Note 17 Expense by Function

Instruction encompasses all formal educational and instructional program elements. Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio visual services. Student services include all scholarships, bursaries and activities or services to the student body of the College. Institutional support includes all activities that provide institution-wide support to other programs.

	2006		2005
	Budget (Note 22)	Actual	Actual
Instruction	$ 25,222,612	$ 24,649,326	$ 23,682,197
Academic support	4,086,496	4,052,405	3,850,410
Student services	2,666,127	3,263,202	2,629,174
Institutional support	10,820,574	10,935,260	9,903,960
Ancillary services (Note 15)	6,203,449	5,791,303	5,631,158
Computer services	4,345,577	2,877,954	2,698,135
Amortization of capital assets	4,308,873	4,507,902	4,159,746
	57,653,708	56,077,352	52,554,780
Less amortization of capital assets - Ancillary services	362,998	358,467	359,105
	$ 57,290,710	$ 55,718,885	$ 52,195,675

Note 18 Salaries and Benefits

	2006					2005	
	Number of Individuals[a]	Base Salary[b]	Other Cash Benefits [c]	Other Non-Cash Benefits [d]	Total	Number of Individuals[a]	Total
Chairman of the Board of Governors	1		$ 4,440	$ 67	$ 4,507	1	$ 4,468
Board members[e]	9		16,800	970	17,770	9	18,263
	10		21,240	1,037	22,277	10	22,731
President[f]	1.0	150,000	15,000	24,678	189,678	1.0	248,294
Vice President Corporate Services	1.0	132,345	-	17,411	149,756	1.0	142,997
Vice President Enrolment Management	1.0	117,742	-	17,914	135,656	0.8	105,844
Vice President Academic & Chief Learning Officer	0.6	67,013	-	11,784	78,797	0.5	81,564
Dean Agriculture, Trades & Tech	0.4	44,524	-	5,759	50,283	1.0	113,230
Dean Access	1.0	97,049	22,435	16,063	135,547	1.0	109,289
Dean Health, Justice & Human Serv	1.0	104,949	-	16,839	121,788	1.0	112,975
Dean Applied Arts & Sciences	1.0	102,139	-	16,560	118,699	1.0	110,274
Dean Applied Management	1.0	101,201	-	13,608	114,809	1.0	103,524
Directors/Managers (average: 2006 - $89,174, 2005 - $85,184)	19.7	1,490,555	-	266,179	1,756,734	32.9	2,802,565
Other salaried staff:							
Administration (average: 2006 - $63,662 2005 - $58,122)	48.2	2,548,658	14,370	505,479	3,068,507	39.0	2,266,751
Academic (average: 2006 - $83,990 2005 - $77,768)	188.1	13,446,918	49,773	2,301,940	15,798,631	185.6	14,433,771
Support (average: 2006 - $44,700 2005 - $39,101)	183.8	6,904,030	96,080	1,215,796	8,215,906	195.4	7,640,296
Non-salaried staff:[g]							
Administration	-	503,185	6,959	37,696	547,840	-	136,184
Academic	-	3,803,658	-	274,222	4,077,880	-	4,516,267
Support	-	1,171,218	30,459	281,361	1,483,038	-	1,396,340
	447.8	30,785,184	256,316	5,024,326	36,065,826	461.2	34,342,896
Other payroll adjustments:							
Severance payments[h]		158,126	-	-	158,126		27,032
Vacation accruals		88,227	-	-	88,227		25,182
Memberships and tuitions		-	-	(8,201)	(8,201)		(5,583)
Curriculum development costs in progress		(48,308)	-	-	(48,308)		(268)
Early Retirement Payments [h]		-	-	-	-		67,525
Addition on capital projects		(40,203)	-	(3,131)	(43,334)		(190,420)
		$ 30,943,026	$ 256,316	$ 5,012,994	$ 36,212,336		$ 34,266,364

Note 18 Salaries and Benefits (continued)

(a) Except for Board members, the number of individuals is expressed as full-time equivalents. The total actual discrete number of individual employees at June 30, 2006 was 1,471 (2005 – 1,544).

(b) Salary includes regular base pay, shift differential, sick-time payments and any other direct cash remuneration.

(c) Other cash benefits include bonuses, overtime, vacation payouts, lump sum payments and honoraria.

(d) Benefits and allowances include the employer's share of all employee benefits and contributions or payments made on behalf of employees including pension plans, Employment Insurance, Workers' Compensation, health care, dental coverage, group life insurance, accidental disability and dismemberment, educational sabbaticals, vehicle allowances, professional memberships, club memberships and remission of tuition fees.

(e) Board members include one representative from each of the academic and support staff. This includes their stipends as Board members, while their salaries and benefits as full-time employees are included under other salaried staff.

(f) An executive compensation package includes an automobile provided to the President. The automobile is not included in the value of benefits disclosed on the schedule.

(g) Non-salaried staff comprises individuals who work less than 29 hours per week; benefits consist of contributions to Employment Insurance, Canada Pension Plan and Workers' Compensation. In addition, for continuing employees working more than 15 hours a week, benefits also include health care, dental coverage, group life insurance, accidental death and dismemberment and vacation payouts.

(h) Severance payments and early retirement payments include all monies paid, directly or on behalf of an employee, upon termination. During the year, the College identified 1 (2005 – 2) redundant position which resulted in a severance payment and no (2005 – 2) individuals received early retirement payments.

Note 19 Related Party Transactions

a) The College is a Provincial Corporation as all members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Alberta Advanced Education. Transactions between the College and the Province are described in Notes 4, 6 b), 8, 10 and 14 to the consolidated financial statements.

b) The College accounts for funds of certain associations and clubs related to College activities through Funds Held on Behalf of Others (Note 20). Certain administrative services are provided without charge to these entities.

Note 19 Related Party Transactions (continued)

c) During the year, the College engaged the services of, and purchased goods from, organizations that are controlled or significantly influenced by members of its Board. Amounts of any such services were determined through fair and open competition in the normal course of operations. For the year ended June 30, 2006, the value of such services was $12,397 (2005 - $15,930).

d) During the year, the College engaged the services of, and purchased goods from, other Alberta post secondary education institutions. Amounts of any such services were determined through fair and open competition in the normal course of operations. For the year ended June 30, 2006, the value of such services purchased was $502,243 (2005 - $529,271) and the value of services provided was $183,034 (2005 - $99,072).

e) The College administers a program that permits advances to staff members for the specific purpose of acquiring and maintaining technological currency in computer hardware and software developments. Such advances are repaid over a maximum period of two years at the prescribed interest rate. The balance of advances outstanding as at June 30, 2006 was $22,176 (2005 - $36,026).

Note 20 Funds Held on Behalf of Others

Lethbridge Community College provides administrative services and administers funds on behalf of other organizations. These amounts are held in trust but are not included in the College's statement of financial position and are summarized as follows:

	2006	2005
Lethbridge Community College Students Association, clubs and activities	$ 821,800	$ 922,295
Chinook Educational Consortium	518,477	459,798
Associated agencies	147,437	159,803
Other agencies	96,785	93,355
Agricultural research projects	44,919	36,714
	$ 1,629,418	$ 1,671,965

Note 21 Commitments and Contingencies

a) The College leases facilities and equipment with lease terms up to three years. The minimum operating lease payments for each of the next three fiscal years are as follows:

2007	$ 897,414
2008	615,183
2009	216,521

b) During the year, Lethbridge Community College continued with two major capital projects. As at June 30, 2006, the College had commitments in relation to these projects as follows:

	Contract	Expended	Commitments
Technology Infrastructure Upgrade:			
Consulting	$ 5,588,811	$ 4,362,179	$ 1,226,632
Software and implementation	3,446,891	2,792,628	654,263
Technology systems	2,472,404	1,205,080	1,267,324
	$ 11,508,106	$ 8,359,887	$ 3,148,219
Cousins Building (Note 6):			
Consulting and design	$ 750,000	$ 638,915	$ 111,085
Building renovations	10,264,438	1,990,956	8,273,482
Science equipment	1,000,000	-	1,000,000
	$ 12,014,438	$ 2,629,871	$ 9,384,567
Total capital projects	$23,522,544	$10,989,758	$12,532,786

c) The College, in the conduct of its normal activities, is named a defendant in a legal proceeding. While the ultimate outcome of this proceeding cannot be predicted at this time, it is the opinion of the administration that adequate provision for this proceeding has been made in the College's accounts. It is believed that the resolution of the proceeding will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of this proceeding, such amounts would be expensed as the related amounts become known to the College.

Note 21 Commitments and Contingencies (continued)

d) The College has not recognized a liability for certain obligations, primarily special handling for the removal and disposal of encapsulated asbestos from facilities and equipment, except as related to the Cousins Building renovations. During the year, the College had identified and included an amount of approximately $400,000 in the renovation contract for the removal and disposal of asbestos within that building. As at June 30, 2006, the College has expended approximately $310,000 for such removal, with the balance to be completed. The fair value of the remaining obligations, if any, cannot be reasonably estimated as the settlement dates are unknown.

Note 22 Budget

The 2006 budget was approved by the Board of Governors on April 19, 2005 and submitted to the Minister of Advanced Education on May 31, 2005.

Note 23 Pledges

As at June 30, 2006, outstanding pledges comprise the following:

Endowments	$ 233,635
Science Equipment – Cousins Building	205,780
Comprehensive fundraising campaign	124,500
Other	50,296
Total	$ 614,211

These amounts have not been recognized as revenue in the financial statements. The pledges are expected to be collected over the next five years as follows:

2007	$ 438,879
2008	145,612
2009	29,070
2010	620
2011	30
Total	$ 614,211

Note 24 Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statements presentation adopted in the current year.

Note 25 Approval of Consolidated Financial Statements

These consolidated financial statements have been approved by the Board of Governors.

MEDICINE HAT COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Medicine Hat College

I have audited the consolidated statement of financial position of the Medicine Hat College as at June 30, 2006 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 15, 2006

MEDICINE HAT COLLEGE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2006

	2006	2005
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 9,379,027	$ 2,273,314
Accounts receivable	787,144	1,075,392
Inventories	272,830	268,658
Prepaid expenses	280,149	237,741
	10,719,150	3,855,105
Investments (Note 3)	9,437,213	8,969,640
Capital assets (Note 4)	44,732,650	42,752,717
	54,169,863	51,722,357
	$ 64,889,013	$ 55,577,462
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 1,868,373	$ 970,382
Accrued vacation pay	663,867	641,495
Unearned revenue (Note 5)	805,080	1,087,068
Deferred contributions (Note 6)	2,316,720	1,000,229
Current portion of long term debt (Note 7)	89,692	84,416
	5,743,732	3,783,590
Construction payables	1,113,740	1,221,414
Deferred capital contributions (Note 6)	2,586,976	-
Long term debt (Note 7)	3,601,286	3,690,978
Unamortized deferred capital contributions (Note 8)	29,441,596	27,731,839
	36,743,598	32,644,231
Net Assets:		
Unrestricted	5,229,767	2,331,713
Internally restricted (Note 9)	2,740,000	2,940,800
Invested in capital assets (Note 10)	11,600,076	11,245,484
	19,569,843	16,517,997
Endowments (Note 11)	2,831,840	2,631,644
	22,401,683	19,149,641
	$ 64,889,013	$ 55,577,462

The accompanying notes are part of these consolidated financial statements.

MEDICINE HAT COLLEGE

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 23)	Actual	Actual
Revenue:			
Grants (Note 13)	$ 20,423,500	$ 22,777,468	$ 19,128,875
Tuition and related fees	9,432,700	9,491,529	9,331,269
Sales, rentals and services	3,891,400	3,414,688	3,458,392
Donations (Note 6)	225,000	103,257	134,603
Investment income (Note 14)	550,000	754,519	529,376
Amortization of deferred capital contributions	1,189,000	1,238,157	1,227,829
	35,711,600	37,779,618	33,810,344
Expense: (Note 15)			
Salaries and benefits (Note 18)	22,369,500	22,186,725	20,470,852
Supplies and services	7,483,600	7,510,572	6,631,951
Utilities	862,500	931,017	834,702
Scholarships and bursaries	375,000	232,272	234,314
Cost of goods sold	1,363,000	1,141,437	1,108,840
Interest on long term debt	236,000	235,095	240,111
Amortization of capital assets	2,558,000	2,490,654	2,400,077
	35,247,600	34,727,772	31,920,847
Excess of revenue over expense before undernoted item	$ 464,000	$ 3,051,846	$ 1,889,497
Gain on disposal of investment portfolio (note 3)	-	-	909,036
Excess of revenue over expense	$ 464,000	$ 3,051,846	$ 2,798,533

The accompanying notes are part of these consolidated financial statements.

MEDICINE HAT COLLEGE

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	2006					2005
	Unrestricted	Internally Restricted	Invested in Capital Assets	Endowments	Total	Total
		(Note 9)	(Note 10)	(Note 11)		
Excess of revenue over expense	$ 3,051,846	$ -	$ -	$ -	$ 3,051,846	$ 2,798,533
Transfers for:						
Acquisition of capital assets	(1,522,673)	-	1,522,673	-	-	-
Amortization of capital assets	1,252,497	-	(1,252,497)	-	-	-
Repayment of long term debt	(84,416)	-	84,416	-	-	-
Internal restrictions - net	200,800	(200,800)	-	-	-	-
Endowment contributions	-	-	-	200,196	200,196	38,677
Increase (decrease) in Net Assets	2,898,054	(200,800)	354,592	200,196	3,252,042	2,837,210
Net Assets, beginning of year	2,331,713	2,940,800	11,245,484	2,631,644	19,149,641	16,312,431
Net Assets, end of year	$ 5,229,767	$ 2,740,000	$11,600,076	$ 2,831,840	$22,401,683	$19,149,641

The accompanying notes are part of these consolidated financial statements.

MEDICINE HAT COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 23)	Actual	Actual
Operating activities:			
Excess of revenue over expense	$ 464,000	$ 3,051,846	$ 2,798,533
Non-cash transactions:			
Amortization of capital assets	2,558,000	2,490,654	2,400,077
Amortization of deferred capital contributions	(1,189,000)	(1,238,157)	(1,227,829)
	1,833,000	4,304,343	3,970,781
Net changes in non-cash working capital (Note 19)	149,000	2,196,534	(836,509)
Cash generated through operating activities	1,982,000	6,500,877	3,134,272
Investing activities:			
Acquisition of capital assets	(3,093,000)	(4,470,587)	(4,284,841)
Redemption (purchase) of long-term investments	782,800	(467,573)	(1,339,754)
Cash used in investing activities	(2,310,200)	(4,938,160)	(5,624,595)
Financing activities:			
Capital contributions	700,000	5,534,890	711,928
Construction payables	(782,000)	(107,674)	179,205
Repayment of long term debt	(84,400)	(84,416)	(79,450)
Endowment contributions	200,000	200,196	38,677
Cash generated through financing activities	33,600	5,542,996	850,360
Increase (decrease) in cash and cash equivalents	(294,600)	7,105,713	(1,639,963)
Cash and cash equivalents, beginning of year	3,781,985	2,273,314	3,913,277
Cash and cash equivalents, end of year	$ 3,487,385	$ 9,379,027	$ 2,273,314

The accompanying notes are part of these consolidated financial statements.

MEDICINE HAT COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

Note 1 Authority and Purpose

Medicine Hat College (the "College") operates under the authority of the Post-Secondary Learning Act, Statutes of Alberta 2003, Chapter P-19.5. The College is exempt from payment of income tax under section 149 of the Income Tax Act.

The College provides broadly based educational and training programs and services to students and local communities.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. The following accounting policies and reporting practices are considered significant.

(a) Consolidated Financial Statements

These consolidated financial statements include the accounts of the Medicine Hat College Foundation. The Foundation operates under part 9 of the Companies Act of Alberta. The Foundation is a registered charity and is exempt from payment of income tax.

(b) Revenue Recognition

Unrestricted contributions are recognized as revenue in the period they are receivable.

Amounts received for tuition fees, and sale of goods and services are recognized as revenue at the time the goods are delivered or the services are provided.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributor.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Revenue Recognition (continued)

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested in capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are taken into income, as amortization of deferred capital contributions, in the periods that the related funded capital asset is amortized.

Externally restricted contributions containing stipulations that the amounts should be retained as net assets, or that the contributions should not be expended, are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property.

Contributions of materials and services that would otherwise have been purchased are recorded at fair market value when a fair market value can be reasonably determined.

Revenue from long-term education contracts is determined on the percentage of completion method. Provisions are made for all anticipated losses as soon as they become evident.

(c) Net Assets Internally Restricted

Net assets internally restricted represent amounts set aside by the College Board of Governors to be used for designated purposes.

(d) Investments

Investments are recorded at cost or amortized cost. Gains and losses on investments are recognized when securities are liquidated, or when there is an other than temporary decline in the value of an investment. Amortization of discount or premium is on a straight-line basis over the life of the investment.

(e) Inventories

Inventories held for resale are valued at the lower of cost or net realizable value, with cost determined on a first-in-first-out basis.

(f) Capital Assets

Land transferred to the College from the City of Medicine Hat, and donated land, are recorded at fair market value at the date of transfer.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(f) Capital Assets (continued)

Buildings and renovations are recorded at June 30, 1989 amortized replacement cost as determined by an independent appraisal, with subsequent additions at cost.

Site improvements are recorded at January 1, 1983 replacement cost as determined by an independent appraisal, with subsequent additions at cost.

Furnishings and equipment are recorded at cost except for items acquired prior to July 1, 1984, which are recorded at estimated cost as determined by the College. Donated assets are recorded at fair market value at the time of donation.

Library acquisitions are recorded at cost and are comprised of books, audiovisual software and periodicals.

Construction in progress includes direct construction, architectural and engineering costs. Construction in progress is not amortized until construction is completed and the assets are ready for productive use.

Amortization is recorded on a straight-line basis over the assets' useful lives, which are as follows:

Buildings and renovations	40 years
Site improvements	25 years
Furniture and equipment	5 to 25 years
Library acquisitions	10 years
Systems planning and development	10 years

(g) Future Employee Benefits

The College participates in the Local Authorities Pension Plan (LAPP). This pension plan is a multi-employer defined benefit plan that provides pensions for the College's participating employees, based upon years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the LAPP pension plan. The College does not record the College's portion of the pension plan's deficit or surplus.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(h) Financial Instruments

The College's financial instruments consist of cash and short-term investments, accounts receivable, investments, accounts payable and accrued liabilities, accrued vacation pay, construction payables, and long-term debt.

The business risks associated with financial instruments are categorized as currency risk (the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates); interest rate risk (the risk that the value of a financial instrument will fluctuate due to changes in market interest rates); and market risk (the risk that the value of a financial instrument will fluctuate as a result of changes in market prices).

It is management's opinion that the College is not exposed to significant currency, interest or market risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

Note 3 Cash, Cash Equivalents and Investments

	2006				2005	
	Cash and Cash Equivalents	Investments	Total Cost	Market Value	Total Cost	Market Value
Cash on hand	$ 8,300	$ -	$ 8,300	$ 8,300	$ 8,300	$ 8,300
Bank balances	2,870,727		2,870,727	2,870,727	366,903	366,903
Term deposits	6,500,000	-	6,500,000	6,500,000	1,900,000	1,900,000
Bond fund	-	6,868,211	6,868,211	6,601,671	6,784,268	6,921,829
Canadian equity fund	-	1,633,877	1,633,877	1,799,636	1,445,200	1,527,973
Foreign equity fund	-	935,125	935,125	908,073	738,283	732,600
	$ 9,379,027	$ 9,437,213	$ 18,816,240	$ 18,688,407	$ 11,242,954	$ 11,457,605

The Board of Governors has an approved investment policy covering both short and long-term investments of the College. The primary investment objectives, in order of priority, are as follows:

a) Preservation of invested capital amounts.
b) Provision of stable and predictable returns.
c) Maximization of return on invested capital amounts.

Note 3 **Cash, Cash Equivalents and Investments** (continued)

The investment policy requires the following:

a) That the external investment manager must be appointed by the Board of Governors.
b) Investments in equities or corporate fixed income securities must be managed by the external investment manager of record.
c) Investments in cash equivalent securities must have a rating equal to or higher than "R1" or "A1".
d) Investments in fixed income securities must have a rating equal to or higher than "R1" or "A1", with the exception that up to 20% of the fixed income securities can be invested in "BBB-rated" bonds or "R1 low" rated paper.
e) Investment in corporate fixed income securities cannot exceed 50% of the externally managed portfolio.
f) Investment in any single corporate fixed income security cannot exceed 10% of the value of all corporate fixed income security holdings.
g) Investment in any single fixed income security cannot exceed 10% of the value of all investment funds, unless the security is issued or secured by the Government of Canada or a province of Canada.
h) Investment in equities cannot exceed 30% of the externally managed portfolio.
i) Investment in a single equity holding cannot exceed 10% of the value of all equity holdings.
j) Investment is not allowed in equities classified as small cap (i.e. market value of common stock of less than $600,000).
k) Except as noted above, all investments must be issued or fully secured by a chartered bank of Canada, by the Treasury Branch of Alberta, by an Alberta credit union backed by the Province of Alberta, or by the Federal Government or by any Provincial government of Canada.

The above policy was approved by the Board of Governors in January 2005, to allow for a higher equity content (increased from 20% to 30%), as well as other minor changes. In addition the College moved from an externally managed portfolio of direct holdings of bond and equity investments, to a portfolio of mutual and pooled trust funds. As a result of the portfolio conversion, a gain on disposal of $909,036 was realized in 2004-2005 and is separately disclosed on the Consolidated Statement of Operations.

The effective annual rate of earnings on long-term fixed income investments owned by the College a June 30, 2006 was 4.55% (2005 – 5.40%) determined on a weighted average basis. Short-term deposits held at June 30, 2006 were earning 4.32% (2005 – 2.62%). Securities classified as cash and cash equivalents will mature in less than one year.

Note 4 Capital Assets

	2006			2005
	Cost & Appraised Value	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,553,000	$ -	$ 1,553,000	$ 1,553,000
Buildings and renovations	58,808,763	24,811,508	33,997,255	34,028,524
Site improvements	7,553,825	6,903,276	650,549	715,822
Furniture and equipment	12,107,915	7,913,893	4,194,022	3,885,456
Library acquisitions	4,263,898	3,243,970	1,019,928	961,825
Systems planning and development	407,276	235,147	172,129	155,163
Construction in progress	3,145,767	-	3,145,767	1,452,927
	$ 87,840,444	$ 43,107,794	$ 44,732,650	$ 42,752,717

Note 5 Unearned Revenue

	2006	2005
Tuition and related fees	$ 790,587	$ 1,074,946
Other	14,493	12,122
	$ 805,080	$ 1,087,068

Note 6 Deferred Contributions and Deferred Capital Contributions

Deferred contributions represent amounts received that have not been spent and are externally restricted. The balance will be recognized as revenue in future periods.

	2006	2005
Contributions received and receivable:		
Grants	$ 9,476,217	$ 2,562,785
Donations	655,895	417,842
Investment income on endowments (note 14)	125,398	105,915
	10,257,510	3,086,542
Transferred to revenue:		
Grants	(3,172,981)	(2,879,030)
Donations	(103,257)	(134,603)
Investment income (note 14)	(125,398)	(105,915)
	(3,401,636)	(3,119,548)
Transferred to:		
Unamortized deferred capital contributions (note 8)	(2,947,914)	(857,973)
Endowments	(4,493)	-
	(2,952,407)	(857,973)
Increase (decrease) during the year	3,903,467	(890,979)
Deferred Contributions and Deferred Capital Contributions, beginning of year	1,000,229	1,891,208
Deferred Contributions and Deferred Capital Contributions, end of year	$ 4,903,696	$ 1,000,229
The balance consists of funds restricted for:		
Deferred Contributions:		
Program delivery	$ 1,185,808	$ 392,869
Scholarships	386,671	313,381
Other designated purposes	744,241	293,979
	2,316,720	1,000,229
Deferred Capital Contributions:		
Infrastructure	2,586,976	-
Deferred Contributions and Deferred Capital Contributions, end of year	$ 4,903,696	$ 1,000,229

Note 7 Long Term Debt

Pursuant to a security agreement entered into with the Alberta Capital Finance Authority (formerly known as Alberta Municipal Financing Corporation) on May 1, 2002, the College borrowed $4,000,000. The funds were used to finance the construction of new student housing at both the Medicine Hat and Brooks campuses. The borrowing of these funds was approved through an "Order In Council" by the Lieutenant Governor on February 6, 2002.

The debenture bears interest at 6.25% per annum, it is to be repaid in twenty-five (25) consecutive annual installments of $320,378, principal and interest, commencing May 1, 2003 and maturing on May 1, 2027. The debenture is secured by a security interest in certain specific property.

	2006	2005
Debenture Payable		
Current Portion	$ 89,692	$ 84,416
Non-current Portion	3,601,286	3,690,978
	$ 3,690,978	$ 3,775,394

Principal payments due during the next five fiscal years are as follows:

2006 - 2007	$ 89,692
2007 - 2008	95,298
2008 - 2009	101,254
2009 - 2010	107,583
2010 - 2011	114,307
Thereafter	3,182,844
	$ 3,690,978

Note 8 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the external funding of capital assets, which will be recognized in revenue, as amortization of deferred capital contributions, in future periods as the related funded assets are amortized.

	2006	2005
Balance, beginning of year	$ 27,731,839	$ 28,101,695
Add amount transferred from deferred capital contributions (note 6)	2,947,914	857,973
Less amount amortized to revenue	(1,238,157)	(1,227,829)
Balance, end of year	$ 29,441,596	$ 27,731,839

Note 9 Net Assets Internally Restricted

Internally restricted net assets represent amounts set aside by the College Board of Governors to be used for the following purposes. These amounts are not available for other purposes without the approval of the Board.

	2006	2005
Operating:		
Working Capital	$ 1,000,000	$ 1,000,000
Capital:		
Campus Renewal & Expansion	-	250,800
Computers and Technology	550,000	500,000
Ancillary Services - Student Residence and related parking	500,000	600,000
Ancillary Services - Parking	690,000	590,000
	1,740,000	1,940,800
	$ 2,740,000	$ 2,940,800

Note 10 Net Assets Invested in Capital Assets

	2006	2005
Investment in capital assets	$ 44,732,650	$ 42,752,717
Outstanding capital financing	(3,690,978)	(3,775,394)
Unamortized deferred capital contributions	(29,441,596)	(27,731,839)
	$ 11,600,076	$ 11,245,484

Note 11 Endowments

Endowments consist of externally restricted donations to the College, the principal of which is required to be maintained intact in perpetuity. The investment income generated from the endowments must be used in accordance with the various purposes established by the donors.

Note 12 Ancillary Services

	2006			2005
	Revenue	Expense	Net	Net
Bookstore	$ 1,547,767	$ 1,384,785	$ 162,982	$ 184,685
Cafeteria	73,828	44,868	28,960	71,359
Student residence	1,103,721	1,140,546	(36,825)	21,263
Parking	176,247	57,137	119,110	123,371
	$ 2,901,563	$ 2,627,336	$ 274,227	$ 400,678

Expense includes direct costs and related amortization.

Note 13 Related Parties

All members of the Medicine Hat College Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education.

Transactions in the current period between the College and the Province were as follows:

	2006			2005
	Received and Receivable	Deferred Contributions and UDCC [1]	Revenue	Revenue
Grants from Related Parties				
Alberta Advanced Education	$ 22,609,009	$ (1,204,423)	$ 21,404,586	$ 18,004,659
Alberta Infrastructure and Transportation	5,073,000	(5,073,000)	-	-
Other Alberta Government Departments	422,550	(25,814)	396,736	357,287
	28,104,559	(6,303,237)	21,801,322	18,361,946
Grants from Other Sources	976,146	-	976,146	766,929
Total Grants	$ 29,080,705	$ (6,303,237)	$ 22,777,468	$ 19,128,875

(1) UDCC refers to Unamortized Deferred Capital Contributions.

As at June 30, 2006, the accounts receivable balance included an amount due from related parties of $224,582 (2005 - $442,887). As at June 30, 2006, the accounts payable balance included an amount due to related parties of $17,600 (2005 - $Nil).

During the year, the College conducted business transactions with other public colleges and universities. The revenues and expenses incurred for these courses have been included in the consolidated statement of operations, but have not been separately quantified. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair value.

Note 14 Investment Income

	2006	2005
Investment income on endowments	$ 125,398	$ 105,915
Investment income on other sources	629,121	423,461
Total investment income recognized as revenue	$ 754,519	$ 529,376

Note 15 Expense by Function

	2006	2005
Instruction General	$ 15,889,807	$ 14,606,193
Instruction Colaborative Degrees	523,672	531,513
Academic support	2,668,239	2,642,524
Student services	3,184,586	2,916,360
Institutional support	2,922,209	2,580,907
Facility operations & maintenance	6,052,745	5,284,296
Ancillary services	2,627,336	2,511,324
Computing services	859,178	847,730
	$ 34,727,772	$ 31,920,847

Instruction encompasses all formal educational and instructional program elements. Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audiovisual services. Student services include all activities or services to the student body of the institution. Institutional support includes all activities that provide institution wide support to other programs.

Note 16 Pension Costs

The College participates in a multiemployer pension plan – Local Authorities Pension Plan (LAPP). The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable to the plan of $1,158,354 for the year ended June 30, 2006 (2005 - $969,986).

At December 31, 2005, the LAPP reported a deficiency of $863,558,000 (2004 – deficiency of $1,288,924,000). Effective January 1, 2005 the employers' contribution rates were increased by approximately 1%. Rates were increased again on January 1, 2006 by approximately 0.4 %.

Note 17 Funds Held on Behalf of Others

The College holds certain funds on behalf of others over which the Board has no power of appropriation. Accordingly, these funds are not included in the consolidated financial statements. At June 30, the respective funds held on behalf of others were as follows:

	2006	2005
Further Education Council	$ 2,935	$ 61,280
Students' Association	55,517	233,857
Faculty Association	9,534	6,610
Conservatory Groups	33,629	35,336
Homestay fees from international students	92,400	258,000
	$ 194,015	$ 595,083

Note 18 Salaries and Benefits

The Treasury Board's Salary and Benefits Disclosure Directive requires the College to disclose certain salaries and benefits. Those salaries and benefits are as follows:

	2006				2005
	Base Salary (1)	Other Cash Benefits (2)	Other Non-cash Benefits (3)	Total	Total
Chairman of Board	$ -	$ 4,275	$ 152	$ 4,427	$ 3,278
Board (10 members)	-	18,000	469	18,469	16,221
President	165,984	-	33,659	199,643	181,919
Vice-President Academic	126,477	-	19,453	145,930	133,102
Vice-President Corporate Services	111,382	-	17,437	128,819	119,280
Dean, Science	97,007	19,221	16,385	132,613	107,477
Dean, Student Services	97,007	-	18,303	115,310	108,876

(1) Base Salary includes pensionable base pay.

(2) Other Cash Benefits include bonuses, overtime, vacation payouts, other lump sum payments and honoraria where applicable.

(3) Other Non-cash Benefits include the employer's share of all other employee benefits and contributions or payments made on behalf of employees including pension, health care, dental, group life insurance, employment insurance, remission of tuition fees and car allowances.

Note 19 Changes in Non-Cash Working Capital

	2006	2005
Accounts receivable	$ 288,248	$ (258,442)
Inventories	(4,172)	97,813
Prepaid expenses	(42,408)	(64,102)
Accounts payable and accrued liabilities	897,991	(236,803)
Accrued vacation pay	22,372	78,797
Unearned revenue	(281,988)	291,162
Deferred contributions	1,316,491	(744,934)
	$ 2,196,534	$ (836,509)

Note 20 Capital Fundraising Projects

The following is the status of the Foundation's fundraising as it relates to major capital projects:

	Actual			Project
	Pre-2006	2006	Total	Target
Power Engineering Project:				
Donations received	$ 270,071	$ 199,728	$ 469,799	
Grants received by Medicine Hat College from Alberta Infrastructure and Transportation	-	1,000,000	1,000,000	
	$ 270,071	1,199,728	1,469,799	
Pledges Receivable				
Unconditional		887,130	887,130	
		$ 2,086,858	$ 2,356,929	$ 4,600,000
Percent of Actual to-date to total Project Budget			51%	
Alumni Hall Project:				
Donations received	$ -	$ 251,966	$ 251,966	
	$ -	251,966	251,966	
Pledges Receivable				
Unconditional		248,034	248,034	
		$ 500,000	$ 500,000	To be established
Percent of Actual to-date to total Project Budget			N/A	

The estimated realizable value of pledges receivable at June 30, 2006 was $ 1,135,164 (2005 - $438,860). These pledges are expected to be honoured over the next 3 years and are not recorded as income or assets in these financial statements. The pledge information is presented for information purposes only.

Note 21 Commitments and Contingencies

(a) During the 2006 fiscal year the College completed phase one of the S Wing & L Wing renovations and phase one of the Heating, Ventilation and Air Conditioning (HVAC) renewal. Projects started during the year included a phase two of the HVAC system renewal project, as well as phase two of the renovations to the S Wing and L Wing.

In relation to the above projects, as at June 30, 2006, the College had contractual commitments of $1,363,000 (2005 - $ 635,000). This amount has not been recorded in the financial statements.

(b) The College was a defendant in one legal proceeding last year. However, the action was discontinued on August 22, 2006. Accordingly, no provision for any related loss has been reflected in these statements.

Note 22 Comparative Figures

Certain June 30, 2005 figures have been reclassified to conform to the current year presentation.

Note 23 Budget

The original budget was approved by the College's Board of Governors at their regular meeting on April 19, 2005.

Note 24 Approval of Consolidated Financial Statements

These consolidated financial statements were approved by the Board of Governors.

MOUNT ROYAL COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Mount Royal College

I have audited the consolidated statement of financial position of Mount Royal College as at June 30, 2006 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Mount Royal College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
October 6, 2006

MOUNT ROYAL COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2006
(thousands of dollars)

	2006	2005 (restated Note 20)
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 12,865	$ 21,090
Accounts receivable	3,907	3,317
Inventories (Note 4)	691	830
Prepaid expenses	1,598	1,145
	19,061	26,382
Investments (Note 3)	58,322	47,598
Capital assets (Note 5)	183,161	175,031
	$ 260,544	$ 249,011
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 6,899	$ 7,307
Deferred revenues	5,410	4,431
Accrued vacation pay	4,704	4,302
Deferred contributions (Note 6)	7,538	7,292
Current portion of long-term liabilities (Note 8)	916	922
Employee leave and retirement allowances	293	117
	25,760	24,371
Construction payables	2,365	1,092
Unamortized deferred capital contributions (Note 9)	134,032	128,021
Long term deferred contributions (Note 6)	5,861	815
Deferred capital contributions (Note 7)	526	11,278
Long term liabilities (Note 8)	31,041	31,931
Long term employee leave and retirement allowances	1,252	1,266
	200,837	198,774
Net assets:		
Unrestricted	4,010	4,346
Internally restricted (Note 11)	13,408	9,922
Investment in capital assets	17,178	14,204
Endowments (Note 10)	25,111	21,765
	59,707	50,237
	$ 260,544	$ 249,011

The accompanying notes are part of these consolidated financial statements.

MOUNT ROYAL COLLEGE
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2006

(thousands of dollars)

	2006	2005 (restated Note 20)
Revenue:		
Grants	$ 59,537	$ 52,406
Tuition and related fees	32,512	32,183
Community programs	17,559	16,435
Sales, rentals and services	17,419	16,316
Investment income (Note 12)	4,519	3,162
Donations and contributions	1,183	866
Earned capital contributions (Note 9)	7,300	8,144
	140,029	129,512
Expense (Note 15):		
Salaries and benefits (Note 16)	87,658	80,837
Supplies and services	23,823	23,264
Cost of goods sold	5,049	5,151
Utilities	5,009	4,910
Scholarships and bursaries	1,437	1,103
Amortization and net loss on disposal of capital assets	10,929	11,566
	133,905	126,831
Excess of revenue over expense from operations	6,124	2,681
Internally restricted for endowments and future commitments	(6,974)	(2,713)
Deficiency of revenue over expense, net of Board transfers	$ (850)	$ (32)

The accompanying notes are part of these consolidated financial statements.

MOUNT ROYAL COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006
(thousands of dollars)

	2006						2005 (restated Note 20)
	Unrestricted Net Assets	Internally Restricted Net Assets (Note 11)	Investment in Capital Assets	Total Operating Net Assets	Endowments	Total	Total
Excess of revenue over expense	$ 6,124	$ -	$ -	$ 6,124	$ -	$ 6,124	$ 2,681
Transfer to internally restricted	(6,974)	6,974	-	-	-	-	-
Internally funded:							
Acquisition of capital assets	(2,199)	(3,488)	5,687	-	-	-	-
Payments on debt	(923)	-	923	-	-	-	-
Amortization and loss on disposal of capital assets	3,636	-	(3,636)	-	-	-	-
Contributions to endowments	-	-	-	-	3,346	3,346	4,943
Increase (decrease) in net assets	(336)	3,486	2,974	6,124	3,346	9,470	7,624
Balance, beginning of year (restated)	4,346	9,922	14,204	28,472	21,765	50,237	42,613
Balance, end of year	$ 4,010	$ 13,408	$ 17,178	$ 34,596	$ 25,111	$ 59,707	$ 50,237

The accompanying notes are part of these consolidated financial statements.

MOUNT ROYAL COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006
(thousands of dollars)

	2006	2005 (restated Note 20)
Operating Activities:		
Excess of revenue over expense	$ 6,124	$ 2,681
Non-cash transactions:		
Amortization and net loss on disposal of capital assets	10,929	11,566
Earned capital contributions (Note 9)	(7,300)	(8,144)
	9,753	6,103
Net change in non-cash working capital (Note 14)	491	3,407
Cash generated from operating activities	10,244	9,510
Investing Activities:		
Acquisition of capital assets:		
From internal funds	(5,687)	(2,028)
From long-term liabilities	(68)	(993)
From capital contributions	(13,311)	(3,082)
Proceeds on the disposal of assets	7	384
Disposal of investments, net	(10,724)	(2,546)
Increase (decrease) in long-term deferred contributions	5,046	(3,748)
Cash used for investing activities	(24,737)	(12,013)
Financing Activities:		
Increase in construction payables	1,273	796
Decrease in long-term employee leave and retirement allowances	(14)	(73)
Proceeds from long-term liabilities	27	961
Repayments of long-term liabilities	(923)	(894)
Contributions to endowments	3,346	4,944
Capital contributions	2,559	1,207
Cash generated from financing activities	6,268	6,941
Increase (decrease) in cash and cash equivalents	(8,225)	4,438
Cash and cash equivalents, beginning of year	21,090	16,652
Cash and cash equivalents, end of year	$ 12,865	$ 21,090

The accompanying notes are part of these consolidated financial statements.

Note 1 Authority

Mount Royal College (the "College") operates under the authority of the Post-Secondary Learning Act, Statutes of Alberta 2003, Chapter P-19.5. The College's mission is to foster the success and satisfaction of students in the pursuit of their educational goals. The College is a registered charity under Section 149 of the Income Tax Act and is exempt from payment of income tax.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. The following accounting policies and reporting practices are considered significant.

(b) Consolidated Statements

The financial statements are prepared on a consolidated basis and include the amounts of the following entities:

(i) The Mount Royal College Foundation incorporated under part 9 of the Companies Act of Alberta on March 26, 1991
(ii) The Mount Royal College Day Care Society incorporated under the Societies Act of Alberta

(c) Revenue Recognition

Operating grants, including those from the Province of Alberta, are recognized as revenue in the period receivable. If a portion of a grant relates to a future period, that portion is deferred and recognized in the subsequent period.

Capital grants, including those from the Province of Alberta, are recorded as deferred contributions until they are invested in capital assets. Amounts invested, representing funded capital assets and contributions of property, are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as earned capital contributions revenue in the period when the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the earned capital contributions revenue are matched to indicate that the related amortization expense has been funded externally.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(c) Revenue Recognition (continued)

Unrestricted cash donations are recognized as revenue in the period received/receivable. Donations of goods and services, which would otherwise have been purchased by the College, are recorded at fair value when a fair value can be reasonably determined.

Externally restricted non-capital contributions are deferred and then recognized as revenue in the period when the related expense or performance is incurred. Externally restricted contributions can only be used for the designated purposes. Externally restricted contributions containing stipulations that they should be retained as net assets or that they should not be expended are recorded as a direct increase in net assets. Such contributions include contributions made for endowment purposes or those to be used to acquire non-amortizable property.

Tuition fees and sales of goods and services are deferred and then recognized as revenue in the period when the services are provided or the goods are sold. Revenue from contracts is recognized using the percentage of completion method and is recognized within community programs revenue.

(d) Inventories

Inventory values are based upon the first in first out method and presented at the lower of cost or net realizable value.

(e) Short-term Investments

Short-term investments are recorded at the lower of cost and market value.

(f) Investments

Investments are recorded at cost. Gains and losses on investments are recognized when an investment is sold or when there is an other than temporary decline in the value of an investment.

(g) Financial Instruments

The carrying value of cash, receivables, payables and accruals approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of investments is market value. The market value of publicly traded investments is based on quoted market prices.

The carrying value of financial assets and financial liabilities are considered to be fair value unless otherwise disclosed.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Financial Instruments (continued)

Financial instruments of the College are exposed to credit risk, interest rate risk, foreign exchange risk and market risks. The College's accounts receivable are due from a diverse group of customers and are subject to normal credit risk. The interest rate risk is the risk to the College's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates. The foreign exchange risk is the risk of rising costs related to purchase transactions in United States currency. The market risk is the risk to the College's earnings that arises from the fluctuation and the degree of volatility in the market value of its long-term investments. Each of these risks is limited by the College through its collection procedures, investment policy, and other internal policies and procedures.

(h) Capital Assets

Capital assets are recorded at cost. Donated assets are recorded at fair value. Capital assets under construction are not amortized until construction is completed and the assets are ready for productive use.

Capital assets are amortized on a straight-line basis as follows:

Site improvements	20 - 40 years
Buildings	25 - 40 years
Leasehold improvements	5 - 15 years
Furnishings and equipment	3 - 10 years
Computer equipment	3 - 5 years

Library acquisitions are amortized on a declining balance basis at a rate of 10%.

Construction in progress includes direct construction costs, architectural costs, and engineering costs and interest on related debt. Interest costs are capitalized until the asset is substantially complete.

(i) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these consolidated financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the pension plan. The College's portion of the pension plan's deficit or surplus is not recorded by the College.

Note 3 Cash, Cash Equivalents and Investments

	2006		2005	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 12,865	$ 12,868	$ 21,090	$ 21,091
Federal, Provincial and Municipal Bonds	15,890	16,054	13,694	14,753
Corporate Bonds	11,170	11,050	8,343	8,903
Equities - Canadian	15,893	23,504	14,088	22,133
Equities - International	15,369	16,198	11,473	11,628
	71,187	$ 79,674	68,688	$ 78,508
Held as long-term investments	58,322		47,598	
Held as cash and short-term investments	$ 12,865		$ 21,090	

The College's investment policy is to hold all bonds until their maturities. Within the investment portfolio, there are individual equities that are recorded in excess of their market value. The carrying value of these equities has not been written down to market value because management has concluded, based on a review of market information, that there is no indication of a material decline that is other than temporary.

The amount held as long-term investments represents funds not available for current operations and includes endowments, deferred contributions externally restricted for capital or specific purposes, and net assets internally restricted for capital purposes, as outlined below. The long-term portion at any time will equal or exceed the restricted obligations. For the 2006 fiscal year, long-term investments exceeded the restricted obligation, as such, there was no restriction on cash and cash equivalents.

	2006	2005
Endowments (Note 10)	$ 25,111	$ 21,765
Long-term deferred contributions (Note 6)	5,861	815
Deferred capital contributions (Note 7)	526	11,278
Internally restricted net assets, capital (Note 11)	7,437	5,340
Total Restricted Long-Term	38,935	39,198
Unrestricted Long-Term	19,387	8,400
Total Long-Term Cash and Investments	$ 58,322	$ 47,598

Note 3 Cash, Cash Equivalents and Investments (continued)

The overall rate of return on cash and investments for the year was 6.4% (2005: 5.4%). The cash and cash equivalents and bond funds maturities and effective yields are as follows:

	2006								2005	
	Less than 1 year	Effective Yield	1 to 5 Years	Effective Yield	Over 5 Years	Effective Yield	Total	Effective Yield	Total	Effective Yield
Cash and cash equivalents	$ 12,865	3.87%	$ -		$ -		$ 12,865	3.87%	$ 21,090	2.26%
Federal, Provincial Municipal Bonds			5,483	5.19%	10,712	4.72%	16,195	4.78%	13,694	5.11%
Corporate Bonds			2,537	4.73%	8,328	5.71%	10,865	5.58%	8,343	5.77%
	$ 12,865		$ 8,020		$ 19,040		$ 39,925		$ 43,127	

The College Board of Governors (the "Board") has approved an investment policy. The primary investment objective is to maintain the level of distribution from invested funds while preserving capital in real (inflation adjusted) terms over the long term.

The Board provides guidelines on asset mix, diversification, quality and nature of securities, and terms of fixed income. The current guidelines are as follows:

(a) Asset Mix

Cash equivalents and fixed income	From 40% to 75% of total portfolio
Equities	From 25% to 60% of total portfolio

To measure investment performance and identify the return attributed to the asset mix and asset selection decisions, the College has established a portfolio benchmark of 50% fixed income, and 50% equities. The Funds return is expected to exceed by 1%, the return computed by linking the quarterly index returns of the portfolio consisting of 50% Bonds (measured by the Scotia Markets Universal Bond Index), 25% Canadian Equity (measured by the TSX Capped Index), and 25% Global Equity (measured by the Citigroup World Index).

(b) Diversification – No more than 10% of the total portfolio may be invested in any one money market issuer other than investments guaranteed by the Government of Canada or a province of Canada or Canadian bank having at least an AA rating on the Dominion Bond Rating Service (DBRS) or equivalent credit rating.

Bonds: No more than 10% of the bond component of the portfolio may be invested in any one issue except for the securities of or fully guaranteed by the government of Canada or a province of Canada having at least an AA rating on the Dominion Bond Rating Service (DBRS) or equivalent credit rating. Not more than 15% of the total bond component shall be in foreign bonds, or foreign pay Canadian domiciled bonds.

Note 3 Cash, Cash Equivalents and Investments (continued)

Equities: Normally not more than 10% of the total Canadian equity component shall be invested in the common stock, preferred shares or other equity issues of any one corporation. No more than 20% of the total Canadian equity component shall be invested in small capitalization companies. No more than 10% of the foreign equity component of the fund shall be invested in the common stock, preferred shares or other equity issues of any one corporation. No more than 20% of the total foreign equity shall be invested in small capitalization companies, defined as a capitalization of less than US$2 billion. All equity limits based on market value.

(c) Quality and Nature of Securities – The quality standards for the bond component of the fund shall maintain the following maximum levels: AA or Higher – no limit; Total A or Lower – 50%; Total BBB or Lower – 25%; and, Total BB or Lower – 5%.

(d) Terms of the Fixed Income Portfolio – The duration of the bond portfolio is maintained within a range of 50% to 150% of the duration of the Scotia Capital Universe Bond Index.

Note 4 Inventories

	2006	2005
Bookstore	$ 627	$ 764
Recreation	20	18
Printing	29	26
Smart Card	11	18
Food services	4	4
	$ 691	$ 830

Note 5 Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land and mineral rights	$ 6,833	$ 1	$ 6,832	$ 6,832
Site Improvements	15,178	2,273	12,905	12,691
Buildings	189,058	57,316	131,742	136,791
Furnishings and equipment	50,549	37,303	13,246	14,464
Library acquisitions	4,063	1,958	2,105	2,009
Leasehold improvements	286	284	2	2
Construction in progress	16,329	-	16,329	2,242
	$ 282,296	$ 99,135	$ 183,161	$ 175,031

Note 5 Capital Assets (continued)

The net loss on disposal of capital assets in the year was $87 (2005: $484).

Capital assets include assets under capital leases with a cost of $1,041 and accumulated amortization of $264 (2005: $1,075 and $93 respectively).

Capital asset additions include donated assets recorded as gifts in kind of $86 (2005: $64).

Note 6 Deferred Contributions

Deferred contributions are restricted contributions, which have been received but relate to expenses of future periods.

	2006	2005
Contributions received during the year:		
Grants	$ 4,961	$ 2,813
Net donations, other contributions and investment income	11,499	2,850
Transferred from deferred capital contributions (Note 7)	-	3
Transferred to revenue:		
Grants	(4,802)	(3,882)
Investment income (Note 12)	(1,578)	(907)
Donations and contributions	(2,151)	(619)
Transferred to endowments	(407)	(3,943)
Transferred to unamortized deferred capital contributions (Note 9)	(2,230)	(606)
Increase (decrease) during the year	5,292	(4,291)
Balance, beginning of year	8,107	12,398
Balance, end of year	$ 13,399	$ 8,107

Unspent amounts at the end of the year are restricted for the following purposes:

	2006	2005
Current:		
Program support and scholarships	$ 5,611	$ 4,823
Conditionally funded programs	331	785
Maintenance and repairs	1,596	1,684
	7,538	7,292
Long-term:		
Special purpose program funding	5,861	815
	$ 13,399	$ 8,107

Note 7 Deferred Capital Contributions

	2006	2005
Contributions received during the year:		
Restricted investment income (Note 12)	$ 178	$ 290
Donations and other contributions	151	313
	329	603
Transferred to deferred contributions (Note 6)	-	(3)
Transferred to unamortized deferred capital contributions (Note 9)	(11,081)	(2,476)
Decrease during the year	(10,752)	(1,876)
Balance, beginning of the year	11,278	13,154
Balance, end of year	$ 526	$ 11,278

The balance at the end of year is restricted for the following purposes:

	2006	2005
Campus expansion	$ 526	$ 11,278

Note 8 Long-term Liabilities

	2006	2005
Construction financing for student residence (a)	$ 31,210	$ 31,878
Capital lease obligations (b)	747	975
	31,957	32,853
Less: current portion	916	922
	$ 31,041	$ 31,931

Note 8 Long-term Liabilities (continued)

The minimum annual payments for each of the five succeeding fiscal years are as follows:

Residence Debenture (a)	
2007	$ 709
2008	751
2009	798
2010	847
2011	899
	$ 4,004
Capital Leases (b)	
2007	$ 207
2008	180
2009	181
2010	179
Total minimum lease payments	$ 747

(a) Pursuant to a loan agreement entered into on August 14, 2002 with Alberta Capital Finance Authority the College borrowed a sum of $33.1 million to finance the construction of a new student residence. The loan bears interest at 6.125% per annum and matures August 15, 2027. Security pledged for the loan includes all future cash flows generated through the operation of the new student residence. During the year, there was no debenture interest included in construction in progress because the College did not borrow funds to finance any construction.

(b) The imputed interest rate payable on these leases averages 8.6% (2005: 8.6%). During the year, interest expense of $11 (2005: $31) has been included in supplies and services expense.

Note 9 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions are the funded portion of capital assets that will be recognized as revenue in future periods.

	2006	2005
Transferred from deferred contributions (Note 6)	$ 2,230	$ 606
Transferred from deferred capital contributions (Note 7)	11,081	2,476
Earned and transferred to revenue	(7,300)	(8,144)
Increase (decrease) during the year	6,011	(5,062)
Balance, beginning of year	128,021	133,083
Balance, end of year	$ 134,032	$ 128,021

Note 10 Endowments

	2006	2005
External endowments	$ 24,912	$ 21,566
Internal endowments	199	199
	$ 25,111	$ 21,765

Endowments consist of restricted donations to the College as well as internal allocations by the Board, the principal of which is required to be maintained intact in perpetuity. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board.

Note 11 Internally Restricted Net Assets

The Board has committed operating net assets as follows:

	2006	2005
Operations:		
Academic program development	$ 889	$ 729
College effectiveness and community needs	561	260
Professional development	288	151
Scholarships and bursaries	544	409
Research and special projects	3,689	3,033
	5,971	4,582
Capital:		
Capital and equipment renewal	3,897	820
Instructional equipment	163	237
Residence	898	1,085
Parking	2,479	3,198
	7,437	5,340
Total	$ 13,408	$ 9,922

Note 12 Investment Income

	2006	2005
Net investment Income from restricted balances	$ 1,756	$ 1,210
Transfer to deferred capital contributions (Note 7)	(178)	(290)
Net transferred to deferreds	-	(13)
Investment income from restricted sources (Note 6)	1,578	907
Investment income from unrestricted sources	2,941	2,255
Investment income	$ 4,519	$ 3,162

Note 13 Employee Future Benefits

The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable of $4,545 for the year ended June 30, 2006 (2005: $3,746).

At December 31, 2005, the Local Authorities Pension Plan reported a deficiency of $863,558 compared to a deficiency of $1,288,924 at December 31, 2004.

The College has established supplementary defined contribution pension plans for its Senior Executives, excluding the President. These plans were approved by the Minister of Advanced Education on March 18, 2005. An expense of $82 (2005: $99) has been included in salaries and benefits, relating to these plans. The College's obligation under these plans is included in employee leave and retirement allowances.

Note 14 Net Changes in Non-Cash Working Capital

	2006	2005 (restated Note 20)
Current:		
(Increase) decrease in accounts receivable	$ (590)	$ 2,558
Decrease in inventories	139	37
Increase in prepaid expenses	(453)	(108)
(Decrease) increase in accounts payable and accrued liabilities	(408)	1,076
Increase in deferred revenues	979	200
Increase in accrued vacation pay	402	295
Increase (decrease) in deferred contributions	246	(543)
Increase (decrease) in employee leave allowance	176	(108)
	$ 491	$ 3,407

Note 15 Expenses by Function

	2006	2005
Instruction	$ 57,084	$ 53,515
Academic support	9,556	8,337
Student services	13,594	11,676
Institutional support	12,319	11,430
Facility operations and maintenance	12,727	13,053
Ancillary services	11,373	11,381
Computing Services	6,323	5,873
Amortization and net loss on disposal of capital assets	10,929	11,566
	$ 133,905	$ 126,831

Note 16 Salaries and Benefits

This note complies with the requirements of the Alberta Provincial Treasury Board Salary and Benefits Disclosure Directive dated December 16, 1998 (amended on July 6, 2004) as applied to the College. The information is generally comparable from year to year. However, due to the specifics of the requirements and the particulars of the College's organization, the information may not be comparable to that of another organization.

	2006				2005
	Base Salary [1]	Other Cash Benefits [2]	Other Non-Cash Benefits [3]	Total	Total
Board Chair	$ 6	$ -	$ -	$ 6	$ 6
Board Members	16	-	-	16	17
President (4)	230	20	138	388	325
Vice Presidents					
Academic (5)	166	-	68	234	181
Administrative Services	168	-	44	212	203
External Relations	141	-	43	184	176
Executive Director					
Student Affairs and Campus Life	117	-	16	133	146

[1] Base salary includes pensionable base salary.

[2] Consistent with other post secondary institutions and in recognition that the College uses the President's home for various College functions, the College pays for certain costs for the general operation of the home determined in accordance with a contractual arrangement entered into by the President and the College. This amount is recognized as other cash benefit.

Note 16 Salaries and Benefits (continued)

(3) Employers share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, extended health care, dental care, long-term disability, and group life insurance. Other non-cash benefits figure also includes the employer's share of the cost of additional benefits including sabbaticals or other special leaves with pay, supplementary retirement plans, car allowances, and club memberships.

(4) The President has a place on the Board for which he receives no remuneration. The College provides a vehicle to the President, the value of which is not included in benefits. The comparative figures for 2005 have been adjusted to reflect an additional non-cash benefit related to an accrued education leave for the President at June 30, 2005.

(5) The value reported for the Vice-President Academic includes amounts paid to two separate individuals. For 2006, the Vice President Academic commenced employment with the College on August 1, 2005, prior to that the position was filled with an Acting Vice President. For 2005, the amount includes amounts for the previous Vice President Academic as well as the Acting Vice President Academic.

Note 17 Related Party Transactions

The College is a Provincial Corporation as all the members of the Board are appointed either by statute or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the College and the Province are disclosed as follows:

	2006		2005	
	Current Year Receipts	Current Year Receipts to Deferred Contributions or to Unamortized Deferred Capital Contributions	Current Year Receipts	Current Year Receipts to Deferred Contributions or to Unamortized Deferred Capital Contributions
Operating grant	$ 48,357	$ -	$ 44,411	$ -
Tuition relief funding	2,368	-	-	-
ACCESS funding - programs	5,760	20	5,212	81
ACCESS funding - one-time	161	152	-	-
Infrastructure renewal envelope	1,210	1,029	232	-
Inmate Education Program	248	-	237	-
Literacy - Peer Learning Program	24	-	23	-
Exam Support Assistance	129	-	-	-
Integrated Training - International Nursing	-	-	50	-
STEP Grants	32	3	31	-
Advanced Education Microsoft Rebate	-	-	18	-
Daycare & Related Program Grants	115	-	119	-
Total	$ 58,404	$ 1,204	$ 50,333	$ 81

Note 17 Related Party Transactions (continued)

During the year, the College conducted business transactions with other public colleges and universities. The revenues and expenses incurred for these business transactions have been included in the statement of operations but have not been separately quantified. These transactions were entered into on the same business terms as those with non-related parties and are recorded at fair value amounts.

At June 30, 2006 the College has receivables from the Province of Alberta of $266 (2005: $201) and payables to the Province of Alberta of $66 (2005: $299).

During the year, the College provided home relocation loans to both the President and the Provost and Vice President Academic. Both loans bear interest at 3% per annum and are repayable on demand. At June 30, 2006, the loan balances were $340 (2005: $66).

Note 18 Contractual Obligations and Contingencies

(a) The College leases facilities within Calgary with lease terms of up to three years. These leases expire within the next one to three years. The minimum operating lease payments for each of the three succeeding fiscal years is as follows:

2007	$ 308
2008	$ 200
2009	$ 100

(b) As at June 30, 2006, the College has commitments of approximately $3,077 (2005: $5,838) for capital and expansion projects. As well, in 2004 the College entered into a five year contract (expiring on December 31, 2008) to manage its exposure to volatility in the electrical industry. Based on management's estimate, the annual costs for the year ending June 30, 2007 are expected to be approximately $2.52 million.

Note 19 Pledges

The estimated realizable value of pledges at June 30, 2006 is $2,072 (2005: $5,238). These pledges are expected to be honoured over the next thirteen years and are not recorded as assets in these financial statements.

Note 20 Correction of Error

During the year, the College determined that certain revenues were not accurately included in current liabilities as reported on the financial statements. The adjustment related to revenue from courses which extended beyond the fiscal year end. As a result, deferred revenues were understated, unrestricted net assets and tuition and related fees were overstated. The correction has been made retroactively with restatement of prior period amounts as follows:

	2005		
Statement of Financial Position	As Previously Reported	Adjustment	As Restated
Deferred revenues	3,884	547	4,431
Unrestricted net assets	4,893	(547)	4,346
Statement of Operations			
Tuition and related fees	32,263	(80)	32,183
Excess of revenue over expense	2,761	(80)	2,681
Excess (deficiency) of revenue over expense, net of Board transfers	48	(80)	(32)
Statement of Cash Flows			
Excess of revenue over expense	2,761	(80)	2,681
Net change in non-cash working capital	3,327	80	3,407

Note 21 Budget

The College is required to submit annually a budget/business plan, approved by the Board, to the Minister of Advanced Education for approval. The College's budget and business plan for fiscal year 2005/2006 was approved by the Board on May 30, 2005 and submitted to the Minister thereafter. That approved College budget and the full budget for the Consolidated entity are as follows:

		College Approved Budget	Foundation and Daycare Budgets	Consolidated Entity Budget
Revenue				
	Grants	$ 54,403	$ 72	$ 54,475
	Tuition and related fees	31,841	-	31,841
	Community programs	16,296	-	16,296
	Sales, rentals and services	16,151	1,035	17,186
	Investment income	1,763	16	1,779
	Donations and contributions	1,007	-	1,007
	Earned capital contributions	7,850	-	7,850
		$ 129,311	$ 1,123	$ 130,434
Expense				
	Salaries and benefits	$ 85,015	$ 1,593	$ 86,608
	Supplies and services	21,262	389	21,651
	Cost of goods sold	5,140	-	5,140
	Utilities	5,272	-	5,272
	Scholarships and bursaries	721	-	721
	Amortization and net loss on disposal of assets	11,451	3	11,454
		$ 128,861	$ 1,985	$ 130,846

Note 22 Comparative Figures

Certain 2005 figures have been reclassified to conform to the current year presentation.

Note 23 Approval of Financial Statements

The Board of Governors has approved these financial statements.

NORQUEST COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flow

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of NorQuest College

I have audited the consolidated statement of financial position of NorQuest College as at June 30, 2006 and the consolidated statements of operations, changes in net assets, and cash flow for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 29, 2006

NORQUEST COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2006

	2006	2005
ASSETS		
Current:		
Cash (Note 3)	$ 2,917,964	$ 342,998
Accounts receivable	1,450,149	1,714,812
Inventories	171,338	159,250
Prepaid expenses	166,217	249,539
	4,705,668	2,466,599
Non-current cash (Note 3)	3,121,828	3,221,749
Investments (Note 4)	6,220,311	8,168,439
Capital assets (Note 5)	26,868,241	25,057,271
	$ 40,916,048	$ 38,914,058
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 2,428,060	$ 2,309,333
Accrued vacation pay	2,670,053	2,542,306
Unearned revenue (Note 6)	1,030,599	1,548,874
Deferred contributions (Note 7)	729,938	380,544
	6,858,650	6,781,057
Deferred capital contributions (Note 8)	655,243	67,555
Unamortized deferred capital contributions (Note 10)	15,352,825	15,031,274
	22,866,718	21,879,886
Net Assets:		
Unrestricted	1,135,783	31,195
Internally restricted (Note 11)	4,721,666	6,569,269
Invested in capital assets	11,515,416	10,025,997
	17,372,865	16,626,461
Endowments (Note 12)	676,465	407,711
	18,049,330	17,034,172
	$ 40,916,048	$ 38,914,058

The accompanying notes are an integral part of these financial statements.

NORQUEST COLLEGE
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 22)	Actual	Actual
Revenue:			
Grants and other provincial government contributions (Note 13)	$ 23,305,442	$ 25,182,391	$ 21,860,020
Tuition and related fees	12,554,009	9,940,120	9,196,085
Entrepreneurial grants and contracts (Note 14)	4,801,422	4,579,510	4,390,130
Other sales, services and rental income	1,749,420	1,893,979	1,819,717
Amortization of deferred capital contributions (Note 10)	1,200,000	891,964	1,031,644
Interest income (Note 16)	505,000	515,497	468,704
Donations and contributions	105,000	187,531	277,372
	44,220,293	43,190,992	39,043,672
Expense (Note 17):			
Salaries, wages and benefits (Note 18)	33,520,284	31,666,975	29,362,614
Supplies and services (Note 19)	7,818,507	7,589,501	7,141,193
Amortization and loss/gain on disposal	1,900,000	2,253,307	2,048,059
Utilities	475,500	582,389	585,346
Professional development	391,512	352,416	233,101
	44,105,803	42,444,588	39,370,313
Excess (Deficiency) of revenue over expense	$ 114,490	$ 746,404	$ (326,641)

NORQUEST COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	2006					2005
	Unrestricted	Internally Restricted (Note 11)	Invested in Capital Assets	Endowments (Note 12)	Total	Total
Excess (Deficiency) of revenue over expense	$ 746,404	$ -	$ -	$ -	$ 746,404	$ (326,641)
Endowment contributions	-	-	-	268,754	268,754	27,451
Transfers for:						
Acquisition of internally funded capital assets	(2,855,945)	-	2,855,945	-	-	-
Net book value of capital assets disposed	5,078	-	(5,078)	-	-	-
Amortization of internally funded capital assets	1,361,448	-	(1,361,448)	-	-	-
Board appropriations (Note 11)	(232,952)	232,952	-	-	-	-
Amount expended (Note 11)	2,080,555	(2,080,555)	-	-	-	-
Increase (Decrease) in net assets	1,104,588	(1,847,603)	1,489,419	268,754	1,015,158	(299,190)
Net assets, beginning of year	31,195	6,569,269	10,025,997	407,711	17,034,172	17,333,362
Net assets, end of year	$ 1,135,783	$ 4,721,666	$ 11,515,416	$ 676,465	$ 18,049,330	$ 17,034,172

NORQUEST COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Cash generated from:		
Operating activities:		
Excess (Deficiency) of revenue over expense	$ 746,404	$ (326,641)
Non-cash transactions:		
Amortization of capital assets	2,252,698	2,049,300
Amortization of deferred capital contributions (Note 10)	(891,964)	(1,031,644)
Loss (Gain) on disposal of capital assets	609	(1,241)
	2,107,747	689,774
Changes in working capital:		
Accounts receivable	264,663	(38,095)
Inventories	(12,088)	(10,078)
Prepaid expenses	83,322	733,470
Accounts payable and accrued liabilities	118,727	(2,554)
Accrued vacation pay	127,747	351,031
Unearned revenue	(518,275)	221,400
Deferred contributions	349,394	139,121
	413,490	1,394,295
Cash provided by operating activities	2,521,237	2,084,069
Investing activities:		
Proceeds on disposal of capital assets	5,184	5,728
Decrease in non-current cash	99,921	3,293,246
Decrease (Increase) in investments	1,948,128	(1,217,755)
Acquisition of capital assets - internally funded	(2,855,945)	(3,973,234)
Acquisition of capital assets - externally funded	(1,213,516)	(517,905)
Cash applied to investing activities	(2,016,228)	(2,409,920)
Financing activities:		
Deferred capital contributions received (Note 8)	1,984,050	52,000
Deferred capital contributions used for operating	(191,113)	(98,471)
Endowment contributions	268,754	27,451
Donated equipment	8,266	61,915
Cash generated from financing activities	2,069,957	42,895
Increase (decrease) in cash	2,574,966	(282,956)
Cash at beginning of year	342,998	625,954
Cash at end of year	$ 2,917,964	$ 342,998

Note 1 Authority and Purpose

NorQuest College (the "College") operates under the authority of *the Post-Secondary Learning Act, Chapter P-19.5, Statutes of Alberta, 2003*.

Serving primarily communities in central Alberta, the College provides instruction and training to assist adult learners through academic upgrading programs; career entry training in business, health, trades, technical and service industries; and English as a second language programs. The College maintains a special interest in providing programs and services to aboriginal communities.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the College and the NorQuest College Foundation.

In preparing the College's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Management believes its estimates to be appropriate, however, actual results could differ from these estimates.

(b) Revenue Recognition

(i) Unrestricted Contributions

Unrestricted operating grants and contributions are recognized as revenue in the period when receivable.

(ii) Restricted Contributions

Externally restricted grants and contributions received primarily for non capital purposes are deferred and recognized as revenue in the period when related expenses are incurred.

Externally restricted contributions received primarily for capital purposes are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing externally funded capital assets are then transferred to Unamortized Deferred Capital Contributions. Unamortized Deferred Capital Contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

Restricted contributions for the purchase of capital assets which will not be amortized are recorded as direct increases in net assets Invested in Capital Assets.

Externally restricted contributions for endowment purposes are not recognized as revenue, but are recorded as direct increases in net assets.

(iii) Investment Income

Unrestricted investment income is recognized in the year it is earned. Investment income subject to external restrictions is deferred and recognized as revenue in the period the related expenses are incurred.

(iv) Donations

Donations and contributions in kind are recorded at fair value.

(v) Program Delivery

Revenue from tuition fees, education contract programs and sale of goods and services is recognized as revenue in the period in which the goods are delivered or the services are provided.

Revenue from long-term education contracts is determined using the percentage of completion method. Provision is made for all anticipated losses as soon as they become evident.

(c) Inventories

Inventories for resale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(d) Capital Assets

Capital assets are recorded at cost, except donated assets, which are recorded at fair value.

Capital assets are amortized on a straight-line basis over the following estimated average useful lives:

Buildings, site and leasehold improvements	10 - 40 years
Furniture, equipment and vehicles	10 years
Library collection	10 years
Curriculum	10 years
Computer hardware	5 years
Computer software	5 years
Rental books	5 years

(e) Employee Future Benefits

The College participates in the Public Service Pension Plan and the Management Employees Pension Plan. These pension plans are multi-employer defined benefit pension plans, that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the cost of employer contributions, for its employees during the year, based on rates which are expected to provide for benefits payable under the respective pension plan. The College's portion of the pension plans' deficit or surplus is not recorded by the College.

(f) Full Cost

The College accounts for all significant costs and revenues related to the services it delivers. The fair value of services provided by the Alberta Government is recorded, with a corresponding amount in grants and other provincial government contributions. This consists of an estimate of the fair value of buildings which are leased by the College at a discounted or nominal cost, an estimate of the fair value of internet services, and an estimate of the fair value of courier services.

(g) Financial Instruments

The carrying value of cash, receivables, payables and accruals approximate their fair values due to the relatively short periods of maturity of the instruments.

Note 3 Cash (current and non-current)

	2006		2005	
	Book Value	Market Value	Book Value	Market Value
Cash - operating	$ 313,032	$ 313,032	$ 536,231	$ 536,231
Cash - investment fund	5,726,760	5,726,760	3,028,516	3,028,516
Total cash	6,039,792	6,039,792	3,564,747	3,564,747
Less non-current portion	(3,121,828)		(3,221,749)	
Cash - current	$ 2,917,964		$ 342,998	

Non-current cash and investments comprise:

	2006	2005
Internally restricted for capital purposes (Note 11)	$ 1,790,120	$ 2,746,483
Externally restricted for capital purposes	655,243	67,555
Endowments	676,465	407,711
	$ 3,121,828	$ 3,221,749

Note 4 Investments

	2006		2005	
	Book Value	Market Value	Book Value	Market Value
Canada Treasury Bills	-	-	1,958,340	1,976,392
Government of Canada bonds	3,729,405	3,875,898	3,722,628	4,065,201
Provincial bonds	2,490,906	2,532,454	2,487,471	2,616,283
Total investments	6,220,311	6,408,352	8,168,439	8,657,876

Investments by range of maturity date are as follows:

	2006		
	Book Value	Market Value	Effective Yield to Maturity
Maturity less than one year	$ 1,500,034	$ 1,520,912	4.80%
Maturity 1 - 5 years, bonds	3,736,956	3,846,445	5.07%
Maturity 5 - 10 years, bonds	983,321	1,040,995	5.35%
	$ 6,220,311	$ 6,408,352	

The market value of investments may fluctuate with changes in current interest rates. Market values may decrease if interest rates increase and may increase if interest rates decrease.

Term to maturity of investments is based upon the contractual maturity of the security.

Note 5 Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 5,171,165	$ -	$ 5,171,165	$ 5,140,000
Buildings, site and leasehold improvements	19,688,045	3,531,237	16,156,808	15,072,135
Computer hardware	6,109,075	3,905,324	2,203,751	2,181,705
Computer software	2,430,148	1,503,528	926,620	416,333
Rental books	1,017,929	915,540	102,389	179,977
Furniture, equipment and vehicles	2,116,336	812,413	1,303,923	1,179,885
Library collection	898,365	490,939	407,426	370,867
Curriculum	812,511	216,352	596,159	516,369
	$ 38,243,574	$ 11,375,333	$ 26,868,241	$ 25,057,271

Buildings include $1,509,744 of the Learning Center project functionality design cost, amortization of which is deferred until the completion of the project.

Note 6 Unearned Revenue

	2006	2005
Tuition fees	$ 739,430	$ 1,200,189
Entrepreneurial contract programs	254,703	269,168
Ancillary services and other	36,466	79,517
	$ 1,030,599	$ 1,548,874

Note 7 Deferred Contributions

	2006	2005
Restricted donations and contributions received during the year:		
Conditional grants	$ 4,468,292	$ 4,155,248
Donations and contributions	594,602	321,301
Interest income (Note 16)	31,781	26,894
	5,094,675	4,503,443
Transferred to revenue:		
Conditional grants, Alberta Advanced Education (Note 13)	(3,238,984)	(2,828,265)
Conditional grants, Government of Canada	(1,218,205)	(1,238,533)
Donations and contributions	(187,531)	(276,865)
Interest income (Note 16)	(12,587)	(20,659)
	(4,657,307)	(4,364,322)
Transferred to endowments	(87,974)	-
Increase during the year	349,394	139,121
Balance at beginning of year	380,544	241,423
Balance at end of year	$ 729,938	$ 380,544
The balance consists of funds restricted for:		
E-campus Development	$ 10,000	$ -
Smoking Cessation Program	22,082	-
Training/Leaner Project	73,399	
Dayhome Provider Program	-	25,000
Integrated Teaching Model	-	53,000
Press Sector Research	-	11,928
Scholarships and bursaries	624,457	286,166
Energy Management Projects	-	4,450
	$ 729,938	$ 380,544

Note 8 Deferred Capital Contributions

	2006	2005
Conditional grants:		
Alberta Infrastructure and Transportation	$ 1,238,000	$ 52,000
Alberta Advanced Education	746,050	-
	1,984,050	52,000
Transferred to grant revenue:		
Alberta Infrastructure and Transportation (Note 13)	(147,882)	(96,302)
Alberta Advanced Education (Note 13)	(43,231)	(2,169)
Transferred to unamortized deferred capital contributions (Note 10)	(1,205,249)	(455,990)
	587,688	(502,461)
Balance at beginning of year	$ 67,555	570,016
Balance at end of year	$ 655,243	$ 67,555

The balance consists of funds restricted for:

	2006	2005
Alberta Advanced Education - HVAC System Renewal	$ 650,000	$ -
Alberta Advanced Education - Health Careers Expansion	5,243	67,555
	$ 655,243	$ 67,555

Note 9 Employee Future Benefits

At July 1, 2002, the College established a self-insured long term disability plan for its term employees. Employee and employer contributions are based on a percentage of the monthly salary of each term employee. This percentage is reviewed each year in conjunction with a review of the actual benefits paid out during the year. Employee and employer contributions for the year ended June 30, 2006 were $52,035 (2005 - $42,737) and $4,852 (2005 - $12,308) respectively. Funds disbursed included $49,666 (2005 - $23,061) for claims, $3,852 (2005 - $3,600) for administration costs, and leaving plan assets of $117,155 (2005 - $113,786).

The total accrued benefit obligation at June 30, 2006 is $112,282 (2005 - $37,110). This is comprised of an open and reported claims liability estimate of $69,616 (2005 - $2,519), determined based on a gross monthly benefit and no other discounts for interest, CPP offsets, death or recovery, and a further liability of $42,666 (2005 - $34,591) estimated for incurred but not reported claims (established based on 75% of annual paid claims). The College recognized an expense of $21,402 (2005 - $20,187).

The plan surplus is $3,640 (2005 - $80,160). The plan assets are included in the College's cash and investments and the accrued benefit obligation is included in the College's accounts payable and accrued liabilities.

The College participates in the Public Service Pension Plan and the Management Employees Pension Plan. The pension expense recorded in these financial statements is equivalent to the College's annual contributions of $1,829,830 for the year ended June 30, 2006 (2005 - $1,639,453).

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,895,000 (2004- $268,101,000) and the Public Service Pension Plan reported a deficiency of $187,704,000 (2004 - $450,068,000).

Note 10 Unamortized Deferred Capital Contributions

	2006	2005
Balance at beginning of year	$ 15,031,274	$ 15,545,013
Amortization of deferred capital contributions	(891,250)	(1,031,644)
Transferred from deferred capital contributions (Note 8)	1,205,249	455,990
Disposed deferred capital contributions	(714)	-
Donated equipment	8,266	61,915
Balance at end of year	$ 15,352,825	$ 15,031,274

Note 11 Internally Restricted Net Assets

Internally restricted net assets represent amounts restricted by the College Board of Governors to be used for the following designated purposes. These amounts are not available for other purposes without the approval of the Board.

	2006			
	Opening	Appropriations and Transfers	Expended	Closing
Capital:				
Downtown Campus Development	$ 2,060,062	$ -	$ (627,334)	$ 1,432,728
Facilities	570,853	-	(329,030)	241,823
Equipment	115,569	-	-	115,569
	2,746,484	-	(956,364)	1,790,120
Operating:				
Strategic investment	433,898	6,857	(182,703)	258,052
Technology renewal	1,347,703	-	(602,489)	745,214
Organizational development	319,000	-	(58,774)	260,226
Instructional development	1,062,768	200,000	(240,558)	1,022,210
Ancillary development	629,875	23,733	(34,012)	619,596
Scholarships	29,541	2,362	(5,655)	26,248
Totals	$ 6,569,269	$ 232,952	$ (2,080,555)	$ 4,721,666

Note 12 Endowments

Endowments consist of restricted donations to the College and internal allocations by the Board of Governors, the principal of which is not to be spent. Investment earnings on externally restricted endowments are recorded as deferred contributions until spent, at which time they are recorded as revenue. Investment earnings on internally restricted endowments are recorded as revenue and transferred to internally restricted net assets until spent. The investment income generated from endowments must be used in accordance with the purposes established by the donors or the Board of Governors. Endowments comprise the following:

	2006	2005
Externally restricted for scholarships and bursaries	$ 535,005	$ 266,711
Internally restricted:		
Scholarships and bursaries	104,000	104,000
Literacy	22,460	27,000
Career training	5,000	-
Graduation	10,000	10,000
	141,460	141,000
	$ 676,465	$ 407,711

Note 13 Grants and Other Provincial Government Contributions

	2006	2005
Alberta Advanced Education:		
General operating grant	$ 21,152,829	$ 18,398,986
Performance envelope	284,357	219,190
Conditional grants (Note 7)	3,238,984	2,828,265
Conditional capital grants (Note 8)	43,231	2,169
Other Alberta Government:		
Contributions in kind (Note 21)	315,108	315,108
Conditional capital grants (Note 8)	147,882	96,302
	$ 25,182,391	$ 21,860,020

Note 14 Entrepreneurial grants and contracts

	2006	2005
Government of Canada - Language Instruction for Newcomers	$ 1,391,226	$ 1,320,144
Consortia Contracts	686,719	695,623
Alberta Human Resources and Employment:		
Alberta Workforce Essentials	27,897	-
Living Allowance Direct Debit Project	25,000	-
Client Advisory and Information Services	730,800	623,100
Disability Related Employment Support	752,184	848,162
Job Placement	-	10,200
	1,535,881	1,481,462
Other contracts	965,684	892,901
	$ 4,579,510	$ 4,390,130

Note 15 Ancillary Services

	2006				2005
	Campus Store	Rental Books	Other Ancillary	Total	Total
Revenue	$ 819,645	$ 634,486	$ 324,871	$ 1,779,002	$ 1,676,714
Expense (Note 17)	(668,418)	(489,029)	(145,610)	(1,303,057)	(1,235,587)
Net	151,227	145,457	179,261	475,945	441,127
Indirect expenses	(76,756)	(151,200)	(22,414)	(250,370)	(257,258)
Excess	$ 74,471	$ (5,743)	$ 156,847	$ 225,575	$ 183,869

Indirect expenses include estimates for the cost of use of space, facility operating costs, and institutional support. Other ancillary services include parking, car wash, and external printing services.

Note 16 Interest Income

	2006	2005
Interest earnings	$ 534,691	$ 474,939
Add deferred amounts expended (Note 7)	12,587	20,659
Less amounts transferred to deferred contributions for scholarships and bursaries (Note 7)	(31,781)	(26,894)
Total interest income recognized as revenue	$ 515,497	$ 468,704

Note 17 Expense by Function

	2006	2005
Instruction	$ 16,415,736	$ 15,906,593
Academic support	8,066,038	7,221,350
Facilities operations and maintenance	5,045,226	4,828,754
Student services	5,145,540	4,080,238
Institutional support	4,160,356	4,432,322
Ancillary services (Note 15)	1,303,057	1,235,587
Computing, network and communications	2,305,663	1,488,038
Special purpose and trust	2,972	177,431
	$ 42,444,588	$ 39,370,313

Instruction encompasses all formal educational and instructional program elements.

Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio visual services.

Facilities operations and maintenance includes building maintenance, facilities administration, custodial services, utilities, repairs and renovations, capital amortization and other activities for the management of the facilities.

Student services includes all activities or services to the student body of the College.

Institutional support includes all activities that provide College-wide support to other programs and services.

Ancillary services include self supporting revenue producing services provided to students and faculty or staff.

Computing, network and communications includes activities and services that provide and support computing, networking, data communications and other information technology functions.

Special purpose and trust includes activities related to student assessment testing.

Note 18 Salaries, Wages and Benefits

The following information is prepared in accordance with Treasury Board Directive No. 12/98, as amended July 6, 2004, and only includes salary and benefit information for the Board and Senior Management:

	2006				2005
	Base Salary(1)	Other Cash Benefits(2)	Other Non-cash Benefits (3)	Total	Total
Chairman of the Board	$ -	$ 5,040	$ 76	$ 5,116	$ 5,040
Board Members	-	25,350	-	$ 25,350	27,800
President	155,628	-	15,986	$ 171,614	166,833
Vice President - College Services	120,963	-	24,732	$ 145,695	128,467
Vice President - Instruction	112,287	-	24,715	$ 137,002	120,084
Executive Director - Community				$ -	
Relations	96,963	-	23,515	$ 120,478	111,224
Dean - Health and Human Services	96,963	-	23,515	$ 120,478	111,218
	$ 582,804	$ 30,390	$ 112,539	$ 725,733	$ 670,666

1) Base Salary represents the actual salary expense and includes base pay and amounts deferred for future leave.

2) Other cash benefits include bonuses, overtime, lump sum payments and honoraria.

3) Other non-cash benefits include the College's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long-term disability plans, and professional memberships required for employment. Other non-cash benefits also includes accrued professional development leave for the President.

Note 19 Supplies and Services

	2006	2005
Supplies and services	$ 2,681,259	$ 2,325,058
Contracted services	1,244,372	1,222,671
Repairs and maintenance	1,146,204	1,050,058
Purchases for resale	603,791	515,304
Leases and rentals	952,275	966,979
Marketing	645,875	634,463
Telecommunications	204,760	232,811
Scholarships and bursaries	110,965	193,849
	$ 7,589,501	$ 7,141,193

Note 20 Commitments and Contingencies

Future minimum annual lease payments under operating leases and other commitments are:

2007	1,364,488
2008	410,853
2009	315,349
2010	51,717
2011 and thereafter	-

Included in the above is a major contract to provide facility maintenance services. The contract is for the period July 1, 2005 to June 30, 2007. The total outstanding commitment at June 30, 2006 is $899,004.

Note 21 Related Parties

(a) Alberta Government and Alberta Post-Secondary Education Institutions

The College is a Provincial Corporation. All of the members of the Board of Governors are appointed pursuant to the Post Secondary Learning Act by a combination of orders by the Lieutenant Governor in Council or the Minister of Advanced Education. In accordance with the accounting policy described in Note 2 (f), the College accounts for all significant costs related to the services for which it is responsible.

In the normal course of operations, the College engages in brokerage and other collaborative arrangements with other post-secondary educational institutions in Alberta. These institutions are also Provincial Corporations.

The College had the following transactions with related parties:

	Alberta Government		Post Secondary Collaboration	
	2006	2005	2006	2005
Revenues:				
Grants and other provincial government contributions	$ 24,183,669	$ 21,860,020	$ -	$ -
Contract Programs	1,569,999	1,625,518	670,415	233,730
Amortization of deferred capital contributions	886,752	1,027,258	-	-
Other sales, services and rental income	5,155	8,395	1,190	4,662
	$ 26,645,575	$ 24,521,191	$ 671,605	$ 238,392
Expenses	$ 111,023	$ 139,310	$ 237,926	$ 161,429
Contributions in kind	315,108	315,108	-	-
	$ 426,131	$ 454,418	$ 237,926	$ 161,429
Accounts receivable	$ 377,562	$ 466,426	$ 179,321	$ 139,809
Accounts payable	$ 13,613	$ 15,496	$ -	$ 58,079
Deferred contributions	$ 655,243	$ 67,555	$ -	$ -
Unamortized deferred capital contributions	$ 15,325,488	$ 15,006,988	$ -	$ -

Contributions in kind from the Alberta Government includes an estimate of the fair value of the buildings leased by the College from the Alberta Government at nominal or discounted amounts, and estimates of the fair value of courier and internet services.

(b) Joint Venture

On December 18, 1998, the Lieutenant Governor in Council approved the establishment of a corporation, to be owned equally by Northern Lakes College, Portage College, NorQuest College and Bow Valley College. On February 10, 1999, 818196 Alberta Ltd. was incorporated pursuant to the Alberta Business Corporations Act.

The Corporation was created for the purpose of holding the jointly developed intellectual property transferred from her Majesty the Queen in Right of the Province of Alberta as represented by the Minister of Advanced Education. The fair value of the intellectual property transferred cannot be reasonably determined. As at June 30, 2005, this Corporation was not active.

Note 22 Budget

The Board of Governors approved the College's annual budget on May 2, 2005.

Note 23 Funds Held on Behalf of Others

The College provides accounting services to certain entities. The following funds, held by the College on their behalf, are not included in these financial statements:

	2006	2005
NorQuest College Faculty Association	$ 332,583	$ 139,120
NorQuest College Students' Association	321,025	286,768
Deferred Salary Leave Plan	12,575	103,410
NorQuest College Staff Social Fund - Spirit Planners	2,570	(1,908)
NorQuest Student Art Club	8,787	7,422
Marine Biology Student Fund	90	87
	$ 677,630	$ 534,899

Note 24 Comparative Figures

Certain comparative amounts have been reclassified where necessary to conform to the current year's financial statement presentation.

Note 25 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

NORTHERN LAKES COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Northern Lakes College

I have audited the consolidated statement of financial position of the Northern Lakes College as at June 30, 2006 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Northern Lakes College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred Dunn FCA
Auditor General

Edmonton, Alberta
October 20, 2006

NORTHERN LAKES COLLEGE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2006

	2006	2005
ASSETS		
Current:		
Cash	$ 4,073,454	$ 2,976,159
Accounts receivable	1,009,004	1,214,616
Inventories	281,056	171,013
Prepaid expenses	161,427	168,180
	5,524,941	4,529,968
Non-current cash (Note 3)	36,730	486,550
Investments (Note 4)	4,760,609	2,707,481
Capital assets (Note 5)	30,364,757	30,506,157
	$40,687,037	$38,230,156
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 1,208,390	$ 987,498
Accrued vacation pay	1,877,992	1,877,697
Unearned revenue (Note 6)	8,975	57,226
Deferred contributions (Note 7)	3,161,575	1,071,474
Deferred capital contributions (Note 8)	15,062	32,437
Security deposits held	21,713	16,250
Current portion of equipment loan (Note 9)	35,224	35,224
	6,328,931	4,077,806
Equipment loan (Note 9)	61,631	96,855
Unamortized deferred capital contributions (Note 10)	24,894,945	25,218,616
	31,285,507	29,393,277
Net assets:		
Unrestricted net assets	3,304,010	2,922,881
Invested in capital assets	5,469,812	5,287,540
Internally restricted net assets (Note 11)	12,442	12,942
	8,786,264	8,223,363
Endowments	615,266	613,516
	9,401,530	8,836,879
	$40,687,037	$38,230,156

The accompanying notes are an integral part of these consolidated financial statements.

NORTHERN LAKES COLLEGE

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 21)	Actual	Actual
Revenue:			
Grants and provincial government contributions (Note 12)	$20,427,614	$21,496,749	$18,667,860
Tuition and related fees	4,695,224	3,563,888	3,246,281
Sales, rentals and services (Note 13)	1,434,507	1,608,291	1,452,514
Contract programs	418,000	177,527	463,084
Investment income (Note 14)	188,500	301,326	194,472
Donations and contributions	125,865	136,978	166,566
Miscellaneous	10,010	45,350	31,273
Gain on disposal of capital assets	10,000	(448)	1,682
Amortization of deferred capital contributions (Note 10)	1,255,260	1,303,829	1,219,748
	28,564,980	28,633,490	25,443,480
Expense (Note 15):			
Salaries, wages and benefits (Note 16)	16,839,353	16,179,872	15,200,651
Supplies and services	6,745,351	6,800,281	4,802,872
Amortization	1,975,000	2,077,519	2,038,533
Utilities	1,265,300	1,226,338	1,226,668
Cost of goods sold	572,200	708,643	532,357
Travel	653,285	645,071	553,615
Facilities rental	206,167	191,417	197,963
Repairs and maintenance	252,114	196,859	206,044
Scholarships and bursaries	66,000	44,089	49,465
	28,574,770	28,070,089	24,808,168
Excess (deficiency) of revenue over expense	$ (9,790)	$ 563,401	$ 635,312

NORTHERN LAKES COLLEGE

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2006

	2006					2005
	Endowments	Internally Restricted Net Assets	Invested in Capital Assets	Unrestricted	Total	Total
Excess of revenue over expense	$ -	$ -	$ -	$ 563,401	$ 563,401	$ 635,312
External endowment contributions	1,750	(500)	-	-	1,250	500
Contributions for museum collection	-	-		-	-	-
Transfers for:						
Payment of capital lease principal	-	-		-	-	-
Acquisition of internally funded capital assets	-	-	968,343	(968,343)	-	-
Disposal of internally funded capital assets	-	-	(3,573)	3,573	-	-
Amortization of internally funded capital assets	-	-	(782,498)	782,498	-	-
Increase in net assets	1,750	(500)	182,272	381,129	564,651	635,812
Net assets, beginning of year	613,516	12,942	5,287,540	2,922,881	8,836,879	8,201,067
Net assets, end of year	$ 615,266	$ 12,442	$ 5,469,812	$ 3,304,010	$9,401,530	$ 8,836,879

NORTHERN LAKES COLLEGE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

	June 30, 2006	June 30, 2005
Cash generated from (used by):		
Operating activities:		
Excess of revenue over expense	$ 563,401	$ 635,312
Non-cash transactions		
Amortization of deferred capital contributions	(1,303,829)	(1,219,748)
Amortization of capital assets	2,077,519	2,038,533
Gain on disposal of capital assets	448	(1,682)
	1,337,539	1,452,415
Changes in non-cash working capital (Note 17)	2,370,822	(411,428)
Cash generated from operating activities	3,708,361	1,040,987
Investing activities:		
Net increase in investments	(2,053,128)	(1,311,502)
Net decrease in non-current cash	449,820	(418,300)
Acquisition of capital assets	(1,948,856)	(1,215,704)
Proceeds on disposal of capital assets	11,788	7,946
Cash applied to investing activities	(3,540,376)	(2,937,560)
Financing activities:		
Equipment loan	(35,223)	(35,223)
Endowment contributions	1,750	500
Capital contributions received (Note 8)	962,783	444,275
Cash generated from financing activities	929,310	409,552
Increase (Decrease) in cash	1,097,295	(1,487,021)
Cash at beginning of year	2,976,159	4,463,180
Cash at end of year	$ 4,073,454	$ 2,976,159

Note 1 Authority and Purpose

Northern Lakes College (the "College") was established as a public college on May 14, 1997 by the Lieutenant Governor in Council. The College operates under the authority of the Post-Secondary Learning Act, Chapter P-19.5, Statues of Alberta, 2003. The College is a registered charity and is exempt from the payment of income taxes under section 149 of the Income Tax Act.

Serving primarily communities in north central Alberta, the College provides quality educational programs and services which enable adults to continue their education, to improve their employment opportunities, and to enhance their quality of life. The College accomplishes its mission and mandate for services through: direct and distance delivered programs and courses; numerous credit and non-credit offerings; brokerage and collaborative arrangements; partnerships with business, industry, institutions and agencies; a structured network of community involvement in needs definition, student and staff selection, and assessment of College effectiveness; and use of technology to provide affordable and accessible programs and services to a wide geographic area.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the College and the Council of Community Education Committees Society of Northern Lakes College (the "CCEC"). CCEC operates under the Alberta Securities Act and is a registered charitable organization for income tax purposes. The CCEC acts as a partner with the College reviewing, monitoring and advising on college service priorities in addition to operating and managing numerous programs and courses. The CCEC is made up of 24 education committees representing numerous community agencies and organizations in north central Alberta.

(b) Revenue Recognition

(i) Unrestricted Contributions

Unrestricted operating grants and contributions are recognized as revenue in the period when receivable.

(ii) Restricted Contributions

Externally restricted non-capital grants and contributions are deferred and recognized as revenue in the period when related expenses are incurred.

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing externally funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

Restricted contributions for the purchase of capital assets which will not be amortized are recorded as direct increases in net assets.

Externally restricted contributions for endowment purposes are not recognized as revenue, but are recorded as direct increases in net assets.

(iii) Investment Income

Unrestricted investment income is recognized in the year it is earned.

Investment income subject to external restrictions is, depending on the nature of the restrictions, recorded as a direct increase to net assets, or is deferred and recognized as revenue in the period the related expenses are incurred.

(iv) Donations

Donations and contributions in-kind are recorded at fair value when such value can reasonably be determined.

(v) Program Delivery

Revenue from tuition fees, education contract programs and sale of goods and services is recognized as revenue in the period in which the goods are delivered or the services are provided.

Revenue from long-term education contracts is determined on the percentage of completion method. Provision is made for all anticipated losses as soon as they become evident.

(c) Inventories

Inventories for resale are valued at the lower of cost or net realizable value, with cost determined on a moving average basis.

(d) Investments

Non-current investments are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the period to maturity. The cost of disposal is determined on the average cost basis. Gains or losses realized on disposal are recognized in the period of disposal.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(e) Capital Assets and Collections

Capital assets are recorded at cost, except donated assets which are recorded at fair value, when fair value is reasonably determinable.

Capital assets, except work in progress which is amortized upon completion, are amortized on a straight-line basis over the following estimated average useful lives:

Buildings and site improvements	10 - 40 years
Telecommunications equipment	5 - 10 years
Furniture and equipment	5 - 10 years
Heavy equipment	5 - 10 years
Vehicles	5 - 10 years
Library holdings	2 - 10 years
Curriculum development	5 years
Computer equipment and software	5 years

Leasehold improvements are amortized over the remaining term of the lease.

Museum Collections are recorded at cost and are not amortized.

(f) Employee Future Benefits

The College participates in the Province of Alberta's Public Service and the Management Employees Pension Plans. These pension plans are multi-employer defined benefit plans that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the Public Service and the Management Employees Pension Plans. The College's portion of the pension plans' deficit or surplus is not recorded by the College.

(g) Financial Instruments

The carrying value of cash, accounts receivables, accounts payables and accrued liabilities, and security deposits held approximate their fair value due to relatively short periods to maturity of the instruments. The fair value of investments is their market value. The market value of publicly traded investments is based on quoted market prices.

(h) Management Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 Non-current Cash

Non-current cash consists of amounts related to:

	June 30, 2006	June 30, 2005
Endowments	$ 36,730	$ 486,550

Cash restricted for endowment purposes represent restricted contributions subject to stipulations specifying that the principal be maintained permanently, although the constituent assets may change from time to time. Investment earnings are to be used for purposes as designated by the contributors. Endowment balance includes an endowment of $5,000 established by the Board of Governors for scholarships.

Note 4 Investments

Investments are comprised of:

	June 30, 2006		June 30, 2005
	Market	Cost	Cost
Cash held by Investment Manager	$ 683,537	$ 683,537	$ 126,683
Term deposits	-	-	120,000
Fixed Income			
Federal guaranteed bonds	3,574,687	3,627,637	1,811,688
Provincial guaranteed bonds	445,775	449,435	649,110
	4,020,462	4,077,072	2,460,798
	$ 4,703,999	$ 4,760,609	$ 2,707,481

a) Term Deposits

These consist of Royal Bank 5.8% term deposits which matured July 5, 2005.

b) Fixed Income Investments

The terms of the bond portfolio range from 1 year to 8 years with an average term to maturity of 4.5 years. The average effective yield on the bond portfolio is 4.28%.

Note 5 Capital Assets

	June 30, 2006			June 30, 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings and site improvements	$ 31,470,579	$ 6,081,724	$ 25,388,855	$ 26,008,162
Computer equipment and software	3,974,516	3,055,100	919,416	1,138,873
Logging and heavy equipment	148,992	110,481	38,511	34,152
Land	1,276,680	-	1,276,680	1,276,680
Library holdings	1,096,989	762,065	334,924	317,297
Curriculum development	1,126,111	782,354	343,757	310,092
Furniture and equipment	873,557	540,236	333,321	319,623
Vehicles	649,907	524,350	125,557	93,095
Telecommunication equipment	1,137,403	586,050	551,353	597,482
Leasehold improvements	449,512	226,875	222,637	154,439
Capital leases	107,168	107,168	-	11,261
Museum collections	109,575	-	109,575	104,925
Work in progress	720,171	-	720,171	140,076
	$ 43,141,160	$ 12,776,403	$ 30,364,757	$ 30,506,157

Work in progress represents incomplete capital projects for telecommunication equipment in the amount of $112,280 and building renovations in the amount of $607,891.

Note 6 Unearned Revenue

	June 30, 2006	June 30, 2005
Tuition Fees	$ 5,520	$ 54,365
Ancillary programs	3,455	2,861
	$ 8,975	$ 57,226

Note 7 Deferred Contributions

	June 30, 2006	June 30, 2005
Balance at beginning of year	$ 1,071,474	$ 1,373,850
Restricted contributions received during the year:		
Conditional grants	3,774,182	668,758
Donations and contributions	119,960	178,609
Investment income (Note 14)	47,447	20,591
	5,013,063	2,241,808
Transferred to:		
Grant revenue (Note 12)	(833,277)	(558,549)
Donation revenue	(70,091)	(159,337)
Endowment Fund	-	(500)
Investment income (Note 14)	(11,356)	(10,640)
Deferred capital contributions (Note 8)	(936,764)	(441,308)
Balance at end of year	$ 3,161,575	$ 1,071,474

Unspent amounts at end of year are restricted for:

	June 30, 2006	June 30, 2005
Infrastructure Renewal	$ 2,248,537	$ 284,644
Slave Lake Pool	313,165	311,442
Student Awards and Scholarships	216,511	209,174
Program Enhancement	353,263	220,462
Staff Development	21,331	19,250
Alberta North Projects	(16,929)	11,884
Museum	5,990	5,203
Other	19,707	9,415
	$ 3,161,575	$ 1,071,474

Note 8 Deferred Capital Contributions

	June 30, 2006	June 30, 2005
Balance at beginning of year	$ 32,437	$ 58,807
Contributions received during the year:		
Transfers from deferred contributions (Note 7)	936,764	441,308
Other contributions	26,019	2,967
	962,783	444,275
Transferred to:		
Unamortized deferred capital contributions (Note 10)	(980,158)	(470,645)
Balance at end of year	$ 15,062	$ 32,437

Unspent amounts at end of year are restricted for:

	June 30, 2006	June 30, 2005
Career Technology Studies Project	$ 13,883	$ 31,258
Historical building restoration project	1,179	1,179
	$ 15,062	$ 32,437

Note 9 Equipment Loan

In July 2003, the College borrowed the sum of $176,108 from Caterpillar Financial Services Limited for the purchase of a Harvester Simulator. The loan is secured by a charge on this equipment, bears interest at TD Trust prime plus 0.75% and matures March 30, 2009. During the year principal payments amounted to $35,224.

The repayment of principal for the next five fiscal years will be as follows:

2007	$ 35,224
2008	35,224
2009	26,407
	96,855
Less current portion	35,224
	$ 61,631

Note 10 Unamortized Deferred Capital Contributions

	June 30, 2006	June 30, 2005
Balance at beginning of year	$ 25,218,616	$ 25,967,719
Add amount transferred from deferred capital contributions (Note 8)	980,158	470,645
Less amount amortized to revenue	(1,303,829)	(1,219,748)
Balance at end of year	$ 24,894,945	$ 25,218,616

Note 11 Net Assets Internally Restricted by the Board

Internally restricted net assets represent amounts that match donations received from employees for a variety of College supported projects. These amounts are not available for other purposes without the approval of the Board.

Note 12 Grants and Provincial Government Contributions

	June 30, 2006	June 30, 2005
Unrestricted:		
Alberta Advanced Education:		
Base operating grant	$ 20,552,572	$ 17,979,496
Unfunded Enrollment grant	62,570	104,003
Museum grants	11,118	6,000
Other grants	37,212	19,812
	20,663,472	18,109,311
Transferred from Deferred Contributions (Note 7):		
Alberta Advanced Education:		
Access grants	143,161	444,517
Other grants	79,299	-
High Speed Internet grant	134,909	-
Alberta Infrastructure and Transportation:		
Facilities grants	475,908	98,198
Museum grants	-	15,834
	833,277	558,549
	$ 21,496,749	$ 18,667,860

Note 13 Sales, Rentals and Services

	June 30, 2006			
	Bookstores	Housing	Other	Total
Sales, rentals and services	$ 849,304	$ 164,363	$ 594,624	$ 1,608,291
Add:				
Amortization of deferred capital contributions	3,144	162,400	-	165,544
Total revenue	852,448	326,763	594,624	1,773,835
Expense (Note 15)	(778,239)	(421,954)	(57,171)	(1,257,364)
Excess (deficiency) of revenue over expense	$ 74,209	$ (95,191)	$ 537,453	$ 516,471
Excess (deficiency) of revenue over expense (2005)	$ 19,853	$ (59,367)	$ 565,478	$ 525,964

Other revenues in the amount of $594,624 (2005 - $624,885) represent service contract revenue, rental income, sale of curriculum and other miscellaneous revenue.

Note 14 Investment Income

	June 30, 2006	June 30, 2005
Investment earnings	$ 337,417	$ 204,423
Add amounts transferred from deferred contributions (Note 7)	11,356	10,640
Less amounts transferred to deferred contributions (Note 7)	(47,447)	(20,591)
Total investment income recognized as revenue	$ 301,326	$ 194,472

Note 15 Expense by Function

	June 30, 2006	June 30, 2005
Instruction	$ 10,680,182	$ 8,410,308
Facilities operations and maintenance	5,536,823	4,957,926
Academic support	3,573,789	3,812,142
Institutional support	3,267,069	2,983,012
Student services	2,329,118	2,226,233
Computing, network and communications	1,425,744	1,343,731
Sales, rentals and services (Note 13)	1,257,364	1,074,816
	$ 28,070,089	$ 24,808,168

Instruction encompasses all formal educational and instructional program elements. Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio visual services. Student services include all activities or services to the student body of the institution. Institutional support includes all activities that provide institution-wide support to other programs.

Note 16 Salaries, Wages and Benefits

The salary and benefit disclosure is provided pursuant to Treasury Board Directive 03/2004 and includes only the salaries and benefits of those individuals in the senior decision making group of the College.

	2006				2005
	Base Salary(1)	Other Cash Benefits(2)	Other Non-cash Benefits(3)	Total	Total
Board of Governors	$ 32,976	$ -	$ -	$ 32,976	$ 34,100
President(4)	145,258	57,622	21,110	223,990	161,353
Vice-President					
Academic(5)	51,572	490	11,823	63,885	121,715
College Services	96,180	550	21,720	118,450	105,666
Deans:					
Academic Upgrading(6)	61,816	927	10,135	72,878	107,927
University and Career Studies	104,820	447	22,418	127,685	115,176
Student Services	95,748	407	23,297	119,452	107,423
Senior Director					
Property and Ancillary Services	91,164	666	22,462	114,292	

(1) Base salary includes pensionable base pay, except for the President who is not subject to pension benefits.

(2) Other cash benefits include wellness pay-outs, health spending accounts, vacation payments and lump sum payments.

(3) Other non-cash benefits include the College's share of all employee benefits including Canada Pension Plan, Employment Insurance, pensions, health care, dental coverage, group life insurance, and accidental death and dismemberment insurance and any cash disbursements with respect to vehicle allowances.

(4) This position was occupied by two individuals in 2005-06. Other cash benefits include lump sum vacation payout of 2006 $56,100 to the former President and lump sum wellness payout of 2006 $1,522 to the former President.

(5) This portion was occupied by two individuals in 2005-06. The previous Vice-President, Academic was promoted to President on September 1, 2005. The previous Dean was promoted to the position of Vice-President, Academic on March 1, 2006. This position was vacant from September 2005 to February 2006.

(6) This position was vacant for six months during 2005-06.

Note 17 Changes in Non-cash Working Capital

	June 30, 2006	June 30, 2005
Accounts receivable	$ 205,612	$ (76,515)
Inventories	(110,043)	39,158
Prepaid expenses	6,753	(58,569)
Accounts payable and accrued liabilities	220,892	299,824
Accrued vacation pay	295	(125,899)
Unearned revenue	(48,251)	(188,557)
Deferred contributions	2,090,101	(302,376)
Security deposits held	5,463	1,506
	$ 2,370,822	$ (411,428)

Note 18 Commitments

Future minimum annual lease payments under operating leases are:

2007	$ 473,032
2008	$ 351,442
2009	$ 237,619
2010	$ 200,854
2011	$ 176,092

Note 19 Related Parties

(i) Alberta Government and Alberta Post-Secondary Education Institutions

The College is a Provincial Corporation. All of the members of the Board of Governors are appointed pursuant to the Post Secondary Learning Act by a combination of orders by the Lieutenant Governor in Council or the Minister of Advanced Education. In accordance with the accounting policy described in Note 2 (f), the College accounts for all significant costs related to the services for which it is responsible.

In the normal course of operations, the College engages in brokerage and other collaborative arrangements with other post- secondary educational institutions in Alberta. These institutions are also Provincial Corporations.

The College had the following transactions with related parties:

	Alberta Government		Post Secondary Collaboration	
	2006	2005	2006	2005
Revenues:				
Grants and other provincial government contributions	21,443,643	18,634,966	-	-
Contract Programs	-	-	81,498	75,440
Amortization of deferred capital contributions	1,303,829	1,219,748	-	-
Other sales, services and rental income	355,204	312,844	-	-
Expenses	12,483	18,686	1,265,952	46,946
Contributions in kind	27,372	-	-	-
Accounts receivable	40,458	6,593	4,866	54,491
Accounts payable	158,291	39,547	197,691	4,279
Deferred contributions	2,795,343		11,783	
Unamortized deferred capital contributions	24,894,945	25,218,616	-	-

(ii) On December 18, 1998, the Lieutenant Governor in Council approved the establishment of a corporation, to be owned equally by Northern Lakes College, Portage College, NorQuest College and Bow Valley College. On February 10, 1999, 818196 Alberta Ltd. was incorporated pursuant to the Alberta Business Corporations Act.

The Corporation was created for the purpose of holding jointly developed intellectual property to be transferred from Her Majesty the Queen in Right of the Province of Alberta as represented by the Minister of Learning. As at June 30, 2004 this Corporation was not active and held no assets.

(iii) The College participates in offering certain courses with other Alberta post secondary education institutions. The revenues and expenses incurred for these courses have been included in the consolidated statement of operations at fair value.

Note 20 Operating Segment Information

The following information presents the results of operations of the College by operating segment. The College has two main operating segments which are managed independently and offer differing educational services. The College itself offers numerous credit and non-credit courses and the CCEC offers short-term non-credit courses based on community defined adult learning needs. Inter- segment transactions are recorded at fair value.

A) Statement of Financial Position

	June 30, 2006		
	College	CCEC	Total
Assets			
Total assets	$ 40,206,586	$ 517,553	$ 40,724,139
Adjustment (1)			(37,101)
Total assets per consolidated statements			40,687,038
Liabilities and Net Assets			
Total liabilities	$ 31,361,555	$ 31,951	$ 31,393,506
Total net assets	8,845,031	485,602	9,330,633
	$ 40,206,586	$ 517,553	$ 40,724,139
Adjustment (1)			(37,101)
Total liabilities and net assets per consolidated statements			$ 40,687,038

B) Statement of Operations

	College	CCEC	Total
Total revenue	$ 28,619,523	$ 159,571	$ 28,779,094
Total expense	28,047,240	168,453	$ 28,215,693
Excess of revenue over expense	$ 572,283	$ (8,882)	$ 563,401
Adjustment (1)			-
Total excess of revenue over expense per consolidated statements			$ 563,401

(1) Represents elimination of inter-segment transactions.

Note 21 Budget

The College is required to submit a budget approved by the Board of Governors of the College, to the Minister of Alberta Advanced Education. The College Budget for the year ended June 30, 2006 was approved by the Board of Governors on June 9, 2005. The budget for CCEC was approved on November 24, 2005 by the CCEC Board.

	2006			
	College Approved Budget	CCEC Approved Budget	Elimination for Consolidation	Total Budget
Revenue:				
Grants	$ 20,395,114	$ 140,190	$ (107,690)	$ 20,427,614
Tuition and related fees	4,695,224			4,695,224
Sales, rentals and services	1,410,757	23,750		1,434,507
Contract programs	418,000	12,000	(12,000)	418,000
Investment income	172,500	16,000		188,500
Gain on disposal of capital assets	10,000			10,000
Donations and contributions	115,500	10,365		125,865
Miscellaneous	10,010			10,010
Amortization of deferred capital contributions	1,255,000	260		1,255,260
	28,482,105	202,565	(119,690)	28,564,980
Expense:				
Salaries, wages and benefits	16,839,353			16,839,353
Supplies and services	6,675,221	189,820	(119,690)	6,745,351
Amortization	1,975,000			1,975,000
Utilities	1,265,300			1,265,300
Facilities rental	206,167			206,167
Cost of goods sold	571,000	1,200		572,200
Travel	640,950	12,335		653,285
Repairs and maintenance	251,114	1,000		252,114
Scholarships and bursaries	58,000	8,000		66,000
	28,482,105	212,355	(119,690)	28,574,770
Excess (deficiency) of revenue over expense	$ -	$ (9,790)	$ -	$ (9,790)

Note 22 Pension Costs

The College participates in the multi-employer Management Employees Pension Plan and Public Service Pension Plan. The expense for these pension plans is equivalent to the annual contributions of $979,480 for the year ended June 30, 2006 (2005 - $862,764).

At December 31, 2005, the Public Service Pension Plan reported an actuarial deficiency of $187,704,000 (2004 - $450,068,000 deficiency).

At December 31, 2005, the Management Employees' Pension Plan reported an actuarial deficiency of $165,895,000 (2004 - $268,101,000 deficiency).

Note 23 Comparative Figures

Certain comparative amounts have been reclassified where necessary to conform to the current year's financial statement presentation.

Note 24 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

OLDS COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2006

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Olds College

I have audited the statement of financial position of Olds College as at June 30, 2006 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, ~~as well as evaluating the overall financial~~ statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 29, 2006

OLDS COLLEGE

STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2006

	2006	2005
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 7,908,738	$ 4,439,062
Accounts receivable	1,670,124	2,728,933
Inventories (Note 4)	432,700	371,733
	10,011,562	7,539,728
Long-term contributions receivable	-	50,000
Long-term investments (Note 3)	15,267,808	5,826,694
Capital assets (Note 5)	26,725,725	27,488,536
	$ 52,005,095	$ 40,904,958
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 2,971,611	$ 1,451,436
Current portion of long-term debt (Note 6)	181,514	164,259
Deferred contributions (Note 9)	462,314	548,369
Unearned revenue (Note 8)	1,045,823	762,866
Accrued vacation pay	1,707,942	1,470,160
Deferred donations and endowment interest (Note 10)	2,382,042	1,805,688
	8,751,246	6,202,778
Deferred capital contributions (Note 12)	9,251,521	191,361
Long-term debt (Note 6)	3,475,800	3,657,315
Unamortized deferred capital contributions (Note 13)	14,980,908	15,811,453
	36,459,475	25,862,907
Net assets:		
Unrestricted net assets	1,057,562	1,321,592
Internally restricted (Note 14)	649,269	494,616
Invested in capital assets	8,087,502	7,855,510
Endowments (Note 15)	5,751,287	5,370,333
	15,545,620	15,042,051
	$ 52,005,095	$ 40,904,958

The accompanying notes are part of these financial statements.

OLDS COLLEGE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 25)	Actual	Actual
Revenue:			
Grants, Province of Alberta (Note 22)	$ 18,180,544	$ 18,992,148	$ 17,357,992
Other grants and training contracts	1,885,490	2,304,371	1,674,171
Tuition and related fees	6,317,718	5,377,404	5,485,593
Sales, rentals and other services (Note 16)	4,695,110	5,119,652	5,033,979
Investment earnings (Note 21)	469,000	891,233	835,371
Donations	1,157,175	600,763	708,155
Amortization of deferred capital contributions (Note 13)	1,781,000	1,871,861	1,972,800
Gain on disposal of capital assets	-	6,355	-
	34,486,037	35,163,787	33,068,061
Expense:			
Salaries and benefits	21,342,426	21,475,538	19,618,927
Supplies and services	7,119,630	7,165,642	6,719,398
Scholarships and bursaries	232,660	229,130	226,806
Cost of goods sold	1,960,269	1,783,393	1,845,097
Utilities	1,276,440	1,242,359	1,228,821
Amortization of capital assets	3,000,000	3,145,110	3,079,304
Loss on disposal of capital assets	-	-	91,535
	34,931,425	35,041,172	32,809,888
Excess (deficiency) of revenue over expense	$ (445,388)	$ 122,615	$ 258,173

The accompanying notes are part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	2006						2005
	Unrestricted Net Assets	Internally Restricted Net Assets (Note 14)	Investment in Capital Assets (Note 5)	Total Operating Net Assets	Endowments (Note 15)	Total Net Assets	Total Net Assets
Excess (deficiency) of revenue over expense	$ 122,615	$ -	$ -	$ 122,615	$ -	$ 122,615	$ 258,173
Endowments contributions	-	-	-	-	332,103	332,103	197,800
Recapitalized endowment earnings	-	-	-	-	48,851	48,851	55,690
Board restrictions	(154,653)	154,653	-	-	-	-	-
Internally funded:							
Acquisition of capital assets	(1,342,782)	-	1,342,782	-	-	-	-
Repayment of long-term debt	(164,259)	-	164,259	-	-	-	-
Amortization of		-					
capital assets	1,273,247	-	(1,273,247)	-	-	-	-
Disposal of capital assets	1,802	-	(1,802)	-	-	-	-
Increase (decrease) in net assets	(264,030)	154,653	231,992	122,615	380,954	503,569	511,663
Net asset balance, beginning of year	1,321,592	494,616	7,855,510	9,671,718	5,370,333	15,042,051	14,530,388
Net asset balance, end of year	$ 1,057,562	$ 649,269	$ 8,087,502	$ 9,794,333	$ 5,751,287	$ 15,545,620	$ 15,042,051

The accompanying notes are part of these financial statements.

OLDS COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Operating activities:		
Excess of revenue over expense	$ 122,615	$ 258,173
Amortization of deferred capital contributions	(1,871,861)	(1,972,800)
Amortization of capital assets	3,145,110	3,079,304
Disposal of externally funded assets	(22,842)	-
Loss (gain) on disposal of capital assets	(6,355)	91,535
	1,366,667	1,456,212
Net change in non-cash working capital (Note 17)	3,529,051	732,533
Cash flow from operating activities	4,895,718	2,188,745
Investing activities:		
Purchase of long-term investments, net	(9,441,114)	(80,587)
Purchase of externally funded capital assets	(1,064,159)	(948,977)
Purchase of internally funded capital assets	(1,342,782)	(835,511)
Proceeds from disposal of capital assets	31,000	1,600
Cash applied to investing activities	(11,817,055)	(1,863,475)
Financing activities:		
Repayment of long-term debt	(164,259)	(159,285)
Decrease in contributions receivable	50,000	50,000
Capital contributions received	10,124,318	539,556
Endowments contributions received	380,954	253,490
Cash generated from financing activities	10,391,013	683,761
Increase in cash and cash equivalents	3,469,676	1,009,031
Cash and cash equivalents, beginning of year	4,439,062	3,430,031
Cash and cash equivalents, end of year	$ 7,908,738	$ 4,439,062

The accompanying notes are part of these financial statements.

OLDS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

Note 1 Authority

Olds College (the College) operates under the authority of the *Post-secondary Learning Act*, Statutes of Alberta 2003, Chapter P-19.5.

The College is a public institution preparing individuals for business management, production and technical careers in agriculture, horticulture and land management. In addition to granting diplomas and certificates, the College offers other programs in a variety of formats for the learning needs of the greater community.

The College is a registered charity and is exempt from payment of income tax under Section 149 of the *Income Tax Act*.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these statements requires the use of estimates, which may vary from actual results. Such estimates have been made using judgments determined by management. In management's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below.

(b) Statements

The 2006 financial information represents the consolidated accounts of Olds College, the Olds College Foundation, which operates under Part 9 of the *Alberta Companies Act* and the Olds College Centre for Innovation Inc., a wholly-owned subsidiary incorporated under the *Business Corporations Act* of Alberta. The Olds College Foundation and the Olds College Centre for Innovation Inc. became dormant entities effective July 1, 2004 when their activities were transferred to Olds College.

(c) Revenue Recognition

Operating grants, including grants from the Province of Alberta, are recognized as revenue, either in the period receivable, or, where a portion of the grant relates to a future period, the portion is deferred and recognized in the subsequent period.

Amounts received for tuition fees and sale of goods and services are deferred and recognized as revenue at the time the goods are delivered or the services are provided.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts may only be used for purposes designated by the external party.

Any externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended, including endowments, are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property such as land.

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts of external contributions invested in capital assets are then transferred to unamortized deferred capital contributions. These amounts are recognized as revenue in the periods in which the related amortization expense of the funded capital assets are recorded.

Unrestricted cash donations are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

(d) Inventories

Inventory of bookstore merchandise is maintained using the first-in first-out method, and is valued at the lower of cost and net realizable value. Livestock is valued at net realizable value.

(e) Investments

Long-term investments are recorded at cost or amortized cost where applicable. Gains or losses on investments are recognized at realization, or when there is an other than temporary impairment in the value of an investment.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(f) Capital Assets

The Province of Alberta, Department of Infrastructure and Transportation transferred land, certain buildings and renovations to the College. The land is recorded at April 1978 fair value and the buildings and renovations and certain library materials are recorded at April 1978 depreciated replacement cost as determined by an independent appraisal. Acquisitions of capital assets since April 1, 1978 are recorded at cost, except for donated capital assets which are recorded at cost as approximated by fair value.

The Province of Alberta has been granted an option to purchase the whole or any part of the transferred land, buildings, and renovations for $1 per purchase.

Capital assets are amortized on a straight-line basis over the following estimated useful lives:

Site improvements	10-40 years
Buildings	15-40 years
Leasehold Improvements	25 years
Furnishings, equipment and computer hardware	2-15 years

Construction projects in progress are not amortized until the projects are ready for use.

(g) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the pension plan. The College's portion of the pension plan's deficit or surplus is not recorded by the College.

(h) Fair Value of Financial Assets and Liabilities

Fair value of the College's cash, marketable securities, accounts receivable, accounts payable and accrued liabilities and vacation pay approximate their carrying values due to the relatively short periods to maturity for these instruments.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(i) Credit, Interest Rate and Market Risk

The College's accounts receivable are due from a diverse group of customers and are subject to normal credit risk.

Interest rate risk is the risk to the College's earnings that arise from the fluctuations in interest rates and the degree of volatility of these rates.

Market risk is the risk to the College's earnings that arises from the fluctuations and degree of volatility in the market value of its long-term investments.

Note 3 Cash and Investments

The amount held as long-term investments represents funds not available for current operations.

	2006	2005
Endowments (Note 15)	$ 5,751,287	$ 5,370,333
Deferred capital contributions (Note 12)	9,251,521	191,361
Internally restricted net assets, capital (Note 14)	265,000	265,000
Held as long-term investments	15,267,808	5,826,694
Cash and cash equivalents	7,908,738	4,439,062
Total cash and investments	$ 23,176,546	$ 10,265,756

Cash and investments are summarized as follows:

	2006		2005	
	Cost	Market Value	Cost	Market Value
Cash	$ 11,685,782	$ 11,685,782	$ (118,136)	$ (118,136)
Fixed income - bonds and deposit notes	4,020,852	3,971,496	3,262,070	3,428,180
Convertible debt	399,269	565,127	936,727	973,700
Equities and income trusts	7,070,643	7,090,680	6,185,095	6,820,305
	$ 23,176,546	$ 23,313,085	$ 10,265,756	$ 11,104,049

Within the investment portfolio, there are securities at costs that are in excess of market value. These securities have not been written down to market value, because management has concluded, based on review of market information for the securities, that impairment is temporary.

Maturity dates are summarized as follows:

			2006	2005
	1 to 5 Years	5 Years or greater	Total	Total
Bonds and Debentures:				
Other provincial	$ -	$ 498,870	$ 498,870	$ 498,870
Other government and corporate bonds	1,016,030	2,505,952	3,521,982	2,763,200
	1,016,030	3,004,822	4,020,852	3,262,070
Accrued Interest	8,506	14,843	23,349	19,387
	1,024,536	3,019,665	4,044,201	3,281,457
Yield			3.98%	4.01%
Fair Value	$ 1,003,988	$ 2,967,508	$ 3,971,496	$ 3,428,180

Realized income includes dividend income and gains and losses on disposal of investments.

The Board of Governors, through its Administrative Services Committee, monitors the performance of the investment portfolio. The prime objective and guiding principles of the College's investment policy is to enhance the value of the funds, and at the same time provide a dependable, increasing source of income to support the operating budget, while preventing undue exposure to risk. The four criteria that guide the College's investment policy are safety, growth, liquidity and congruence with our mission. The investments are managed on a day-to-day basis by College staff and an external investment manager.

The investment fund policy allows for all of the funds to be invested in fixed income, short-term investments and equity investments.

Note 4 Inventories

	2006	2005
Livestock, feed and supplies	$ 301,248	$ 243,537
Bookstore merchandise and other	131,452	128,196
	$ 432,700	$ 371,733

Note 5 Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 2,338,320	$ -	$ 2,338,320	$ 2,338,320
Site improvements	2,880,206	941,284	1,938,922	2,025,009
Buildings	50,201,973	34,144,217	16,057,756	17,668,898
Leasehold Improvements	45,705	-	45,705	-
Furnishings and equipment	14,785,318	9,324,576	5,460,742	5,456,308
Construction in progress	884,280	-	884,280	-
	$ 71,135,802	$ 44,410,077	$ 26,725,725	$ 27,488,535

Capital assets have been funded as follows:

	2006	2005
Unamortized deferred capital contributions	$ 14,980,908	$ 15,811,453
Internally funded investment in capital assets	8,087,502	7,855,510
Long-term debt	3,657,315	3,821,573
	$ 26,725,725	$ 27,488,536

Note 6 Long-term Debt

The College acquired long-term debt to finance the construction of student residence town houses. Phase one construction was completed during September 1998 and Phase Two was completed in September 1999.

Phase one is partially funded through a debt instrument amortized over 15 years ending June 11, 2018, with a monthly resetting banker's acceptance interest rate. This rate was 4.338% at June 30, 2006 (2005 - 2.558%).

Phase two is funded through a debenture from Alberta Capital Finance Authority that is due April 1, 2024 and has a fixed interest rate of 5.75%.

The College also purchased 613 acres of farm land during February 2003. This land was partially funded through a 5.625% fixed interest rate debenture from Alberta Capital Finance Authority that is due February 14, 2018. This loan is secured by the farm land.

Note 6 Long-term Debt (continued)

The fair value of the phase one loan is equal to its carrying value due to the nature of the loan. The fair values of the phase two and the farm land loans are not readily determinable due to the lack of a market for these loans.

June 30, 2006 long-term debt:

	Outstanding Principal		Mortgage Payment Requirements					
	Long term	Current	2007	2008	2009	2010	2011	Future Years
Phase One	$ 1,200,000	$ 84,000	$ 146,697	$ 142,579	$ 140,420	$ 145,284	$ 140,428	$ 983,845
Phase Two	1,629,645	55,841	152,756	152,756	152,756	152,756	152,756	1,985,832
Farm land	646,155	41,673	80,364	80,364	80,364	80,364	80,364	562,547
	$ 3,475,800	$ 181,514	$ 379,817	$ 375,699	$ 373,540	$ 378,404	$ 373,548	$ 3,532,224

Interest of $207,958 (2005 - $221,367) has been charged to expense during the year.

Note 7 Interest Rate Swap

The College entered into an interest rate swap in 2003, a derivative financial instrument, for risk management purposes. The interest rate swap is used to manage the College's exposure to fluctuations in interest rates with its phase one student residence long-term debt. The College is not using hedge accounting for this interest rate swap. Therefore, the interest rate swap is recorded on the statement of financial position at its fair value. Gains or losses are recorded on the statement of operations.

The notional amount of the interest rate swap at June 30, 2006 is $1,284,000 (2005 - $1,356,000) at a fixed interest rate of 5.09% which expires in 2018. The fair value of the interest rate swap is an asset of $10,791 (2005 - liability of $77,219). Fair value is determined by the College's financial institution which has arranged the interest rate swap.

Note 8 Unearned Revenue

	2006	2005
Tuition fees	$ 551,064	$ 358,837
Program delivery/Extension services	229,451	79,299
Research	188,288	243,185
Other	55,740	38,985
Prepaid lease revenue	21,280	42,560
	$ 1,045,823	$ 762,866

Note 9 Deferred Contributions

	2006	2005
Education program delivery grant	$ 237,268	$ 168,047
Research grants	225,046	380,322
	$ 462,314	$ 548,369

Note 10 Deferred Donations and Endowment Interest

Deferred donations and endowment interest represent the unexpended portion of amounts received for specific purposes.

	Balance, beginning of year	Contributions and fees	Investment Revenue	Expenses	Balance, End of year
Restricted endowment income:					
Student awards	$ 327,585	$ -	$ 196,203	$ 92,957	$ 430,831
Programs	151,961	-	76,350	60,525	167,786
Faculty development	4,168	-	94,390	94,390	4,168
Other	71,114	-	14,795	3,705	82,204
	554,828	-	381,738	251,577	684,989
Restricted donation income:					
Student awards	82,365	488,875	-	145,345	425,895
Programs	469,596	24,068	-	91,864	401,800
Staff development	42,548	-	-	7,500	35,048
Capital assets	81,989	104,850	-	3,990	182,849
Other	574,362	226,039	-	148,940	651,461
	1,250,860	843,832	-	397,639	1,697,053
Gifts-In-Kind	-	209,807	-	209,807	-
	$ 1,805,688	$ 1,053,639	$ 381,738	$ 859,023	$ 2,382,042

Note 11 Pension Expense

The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable of $1,300,426 for the year ended June 30, 2006 (2005 - $1,086,374).

At December 31, 2005, the Local Authorities Pension Plan reported a deficiency of $863,558,000 (2004 deficiency - $1,288,924,000).

Note 12 Deferred Capital Contributions

	2006	2005
Received during the year:		
Alberta Advanced Education grant & interest	$ 10,072,468	$ -
School of Innovation capital grants	83,195	505,186
Donated equipment	24,698	35,206
Program equipment	9,733	-
	10,190,094	540,392
Transfers to unamortized deferred capital contributions:		
Construction in progress	884,280	-
School of Innovation capital	83,195	911,976
Heavy duty apprentice equipment	62,395	1,792
Donated equipment	24,698	35,206
Program equipment	9,590	-
	1,064,158	948,974
Transfers to revenue:		
Heavy duty apprentice grant	-	837
Furniture, equipment and computers grant	65,776	-
	65,776	837
Increase (decrease) during the year	9,060,160	(409,419)
Balance, beginning of year	191,361	600,780
Balance, end of year	$ 9,251,521	$ 191,361

	2006	2005
The balance is comprised of:		
Alberta Advanced Education	$ 9,188,188	$ -
Agricultural mechanics equipment	59,190	121,585
School of Innovation buildings and equipment	4,000	69,776
Program equipment	143	-
	$ 9,251,521	$ 191,361

Note 13 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions are amounts of external capital contributions, used to fund capital asset purchases, which will be recognized as revenue in the future.

	2006	2005
Balance, beginning of year	$ 15,811,453	$ 16,835,279
Disposal of externally funded assets	(22,842)	-
Amount transferred from deferred capital contributions (Note 12)	1,064,158	948,974
Amortization of deferred capital contributions	(1,871,861)	(1,972,800)
Balance, end of year	$ 14,980,908	$ 15,811,453

Note 14 Internally Restricted Net Assets

Net assets internally restricted are amounts set aside by the College's Board of Governors that are to be used for only designated purposes. The Board has placed internal restrictions on operating net assets as follows:

	2006	2005
Capital:		
Farm capital renewal	$ 150,000	$ 150,000
Vehicle capital renewal	115,000	115,000
	265,000	265,000
Non-capital:		
Office of Advancement Projects	223,656	179,012
Extension program development	150,613	39,604
Scholarships	10,000	11,000
	384,269	229,616
	$ 649,269	$ 494,616

Note 15 Endowments

Endowments consist of restricted donations to the College, the principal of which is required to be maintained intact in perpetuity. The investment income generated from endowments must be used in accordance with the various purposes established by the donors. Benefactors as well as College policy stipulate that the economic value of the endowments must be protected by limiting the amount of income that may be expended and reinvesting unexpended income.

	Principal					
	June 30, 2005 Balance	Donations	Investment Income Capitalized	June 30, 2006 Balance	Expendable Investment Income Earned	Investment Income Expended
Student awards	$ 2,587,012	$ 331,897	$ 7,210	$ 2,926,119	$ 196,203	$ 92,957
Programs	1,104,183	206	18,044	1,122,433	76,350	60,525
Faculty Development	1,552,396	-	23,597	1,575,993	94,390	94,390
Other	126,742	-	-	126,742	14,795	3,705
	$ 5,370,333	$ 332,103	$ 48,851	$ 5,751,287	$ 381,738	$ 251,577

Note 16 Sales, Rentals and Other Services

Sales, rentals and other services revenue are summarized as follows:

	2006	2005
Conference and food services	$ 1,598,247	$ 1,527,779
Residence	1,274,122	1,232,830
Bookstore	810,070	802,652
Rentals and other	562,974	493,624
Academic program ancillary	354,074	395,589
Farm operations	520,165	581,505
	$ 5,119,652	$ 5,033,979

Note 17 Net Changes in Non-cash Working Capital

	2006	2005
Decrease in accounts receivable	$ 1,058,808	$ 291,369
(Increase) decrease in inventories	(60,967)	53,053
Increase in accounts payable and accrued liabilities	1,520,174	252,839
Decrease in deferred contributions	(86,055)	(377,160)
Increase in unearned revenue	282,957	189,001
Increase in accrued vacation pay	237,781	129,414
Increase in deferred donations and endowment interest	576,353	194,017
	$ 3,529,051	$ 732,533

Note 18 Salaries and Benefits

The Province of Alberta's Treasury Board Salary and Benefits Disclosure Directive dated July 6, 2004 requires the College to disclose certain salaries and benefits. These salaries and benefits are as follows:

	2006				2005
	Base Salary(1)	Other Cash Benefits(2)	Other Non-cash Benefits(3)	Total	Total
Chairman of the Board	$ -	$ 14,808	$ 148	$ 14,956	$ 15,616
Board members (5)	-	23,547	822	24,369	31,903
President	166,703	9,600	32,922	209,225	189,314
Vice-President, Academic	134,443	200	21,900	156,543	140,299
Vice-President, Student and Support Services (4)	117,449	-	20,901	138,350	135,819
Vice-President, Advancement	136,646	9,000	18,741	164,387	121,259
Associate Vice-President, Academic	97,510	-	30,175	127,685	63,025
	$ 652,751	$ 57,155	$ 125,609	$ 835,515	$ 697,235

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include honoraria, car allowances, bonuses, vacation payments and health and wellness allowances.

(3) Other non-cash benefits include the employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental and vision coverage, group life insurance, employment insurance and tuition fees.

(4) The position of Vice-President, Student & Support Services had two incumbents during the 2005/2006 fiscal year.

(5) There were 10 Board Members in 2006. (2005 – 9 Members)

Note 19 Funds Held on Behalf of Others

Olds College holds funds in trust for several organizations as follows:

	2006	2005
Student Association	$ 886,590	$ 741,734
Big Country Educational Consortium	690,731	570,068
Other	170,797	225,109
	$ 1,748,118	$ 1,536,911

These amounts are not included in the financial statements.

Note 20 Contingent Losses

The College, in the conduct of its normal activities, is a defendant in a legal proceeding. While the ultimate outcome of these proceedings cannot be predicted at this time, it is the opinion of the administration that adequate provision for these proceedings has been made in the College's accounts. It is believed that the resolution of the proceedings will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of these proceedings, such amounts would be expensed as the related amounts become known to the College.

Note 21 Investment Earnings

	2006	2005
Restricted investment income on resources held for endowment	$ 430,589	$ 469,667
Unrestricted investment income	639,655	589,520
Total investment income	1,070,244	1,059,187
Transfer (to) from deferred donations and endowment interest	(130,160)	(168,126)
Amounts credited directly to endowment principal	(48,851)	(55,690)
	$ 891,233	$ 835,371

Note 22 Related Party Transactions

The College is a Provincial Corporation as all members of the Board of Governors are appointed either by statute or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the College and the Province are disclosed in the Statement of Operations and Statement of Financial Position and are as follows:

	2006		
	Revenue	Deferred Contributions	Deferred Capital Contributions
Operating and Performance grant	$ 17,546,385	$ -	$ -
Access Funding	303,794	(115,010)	-
Extension Services grants	251,096	45,555	-
Infrastructure renewal	613,000	-	(10,000,000)
School of Innovation	26,309	63,442	(56,816)
Miscellaneous grants	251,564	(2,567)	-
	$ 18,992,148	$ (8,580)	$ (10,056,816)

	2005		
	Revenue	Deferred Contributions	Deferred Capital Contributions
Operating and Performance grant	$ 15,409,912	$ -	$ -
Access Funding	587,600	(47,000)	-
Extension Services grants	286,120	(11,687)	-
Infrastructure renewal	534,000	(428,000)	-
School of Innovation	271,399	85,746	9,603
Miscellaneous grants	268,961	23,781	(837)
	$ 17,357,992	$ (377,160)	$ 8,766

During the year, Olds College had business transactions with Big Country Educational Consortium, Southern Alberta Institute of Technology, Northern Alberta Institute of Technology, Red Deer College, Lakeland College, University of Calgary, University of Alberta and the University of Lethbridge. These transactions were at market prices on normal terms of purchase and sale and have been included in the Statement of Operations.

As part of the new Community Learning Campus joint venture, Olds College has an amount payable to Chinook's Edge School Division in the amount of $884,280. The liability is a result of construction in progress on the new Community Learning Campus buildings.

Note 23 Community Learning Campus Joint Venture

Olds College and Chinook's Edge School Division have formed a joint venture to enhance rural learning opportunities by developing an environment that provides students with a seamless transition between high school, college, university, apprenticeship trades and the workplace.

The Community Learning Campus will see the development of a new high school, health and wellness facility, fine arts and multi-media center, e-learning center and bus maintenance facility on the Olds College Campus. The high school, fine arts and muli-media center and bus maintenance facility will be owned by Chinook's Edge School Division. The health and wellness facility and e-learning center will be owned by Olds College. The land for the Community Learning Campus will continue to be owned by Olds College.

Olds College has received a $20 million commitment from Alberta Advanced Education in support of the project. At June 30, 2006, $10 million of the funding has been received and is reflected in deferred capital contributions. Construction costs in progress to June 30, 2006 total $884,280 and are reflected in the financial statements as an amount payable to Chinook's Edge School Division. The entire $57 million project is anticipated to be operational for the 2008/2009 academic year.

Note 24 Comparative Figures

Certain 2005 figures have been reclassified to conform to the 2006 presentation.

Note 25 Budget

The College is required to submit a budget, approved by the Board of Governors of the College, to the Minister of Advanced Education. The College budget for the year ended June 30, 2006 was approved by the Board of Governors on April 28, 2005 and approved by the Minister of Advanced Education on September 27, 2005.

Note 26 Approval of Financial Statements

The Board of Governors approved these financial statements.

PORTAGE COLLEGE
FINANCIAL STATEMENTS
JUNE 30, 2006

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1 - Continuing Education Programming

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Portage College

I have audited the statement of financial position of Portage College as at June 30, 2006 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 26, 2006

PORTAGE COLLEGE

STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2006

	2006	2005
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 3,768,089	$ 2,602,181
Accounts receivable (Note 5)	1,035,589	749,233
Inventories (Note 6)	174,802	169,617
Prepaid expenses	86,058	129,403
	5,064,538	3,650,434
Non-current cash and cash equivalents (Note 3)	1,110,043	1,014,129
Long-term investments (Note 4)	794,294	799,962
Capital assets (Note 7)	30,935,848	31,260,707
	$ 37,904,723	$ 36,725,232
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 797,406	$ 745,748
Accrued vacation pay	1,096,306	1,073,093
Unearned revenue (Note 8)	324,420	218,611
Deferred contributions (Note 9)	1,005,454	805,456
	3,223,586	2,842,908
Deferred capital contributions (Note 10)	303,470	72,618
Unamortized deferred capital contributions (Note 11)	27,336,341	27,890,534
	30,863,397	30,806,060
Net assets:		
Unrestricted net assets	710,803	783,045
Internally restricted net assets (Note 12)	2,160,560	1,280,041
Invested in capital assets	3,599,508	3,370,174
	6,470,871	5,433,260
Endowments (Note 3)	570,455	485,912
	7,041,326	5,919,172
	$ 37,904,723	$ 36,725,232

The accompanying notes and schedule are part of these financial statements.

PORTAGE COLLEGE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2006

	2006		2005
	Budget (Note 23)	Actual	Actual
Revenue:			
Grants and provincial government contributions (Note 21)	$ 15,203,027	$ 16,738,065	$ 15,107,679
Tuition and related fees	3,567,057	3,294,750	2,999,562
Contract income	869,315	1,541,400	1,516,735
Sales, rentals and services (Note 13)	1,910,357	1,975,883	1,737,132
Donations and contributions	28,831	308,161	53,981
Investment income (Note 14)	138,000	193,090	134,296
Amortization of deferred capital contributions (Note 11)	983,151	993,491	1,030,027
Miscellaneous	177,974	303,970	173,280
	22,877,712	25,348,810	22,752,692
Expense (Note 15):			
Salaries, wages and benefits (Note 16)	14,458,505	14,858,149	14,060,784
Supplies and services	5,547,909	6,952,139	5,913,741
Utilities	766,532	723,484	714,673
Scholarships and bursaries	134,625	115,290	103,585
Amortization	1,735,469	1,662,137	1,731,198
	22,643,040	24,311,199	22,523,981
Excess of revenue over expense	$ 234,672	$ 1,037,611	$ 228,711

The accompanying notes and schedule are part of these financial statements.

PORTAGE COLLEGE

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	2006					2005
	Unrestricted Net Assets	Internally Restricted Net Assets (Note 12)	Invested in Capital Assets	Endowments (Note 3)	Total	Total
Excess of revenue over expense	$ 1,037,611	$ -	$ -	$ -	$ 1,037,611	$ 228,711
Endowment contributions received	-	-	-	84,543	84,543	41,310
Transfers for:						
Internally restricted net assets (Note 12)	(880,519)	880,519	-	-	-	-
Amortization of internally funded capital assets	668,646	-	(668,646)	-	-	-
Acquisition of internally funded capital assets	(913,340)	-	913,340	-	-	-
Net book value of capital assets disposed	15,360	-	(15,360)	-	-	-
(Decrease) Increase in net assets	(72,242)	880,519	229,334	84,543	1,122,154	270,021
Net assets, beginning of year	783,045	1,280,041	3,370,174	485,912	5,919,172	5,649,151
Net assets, end of year	$ 710,803	$ 2,160,560	$ 3,599,508	$ 570,455	$ 7,041,326	$ 5,919,172

The accompanying notes and schedule are part of these financial statements.

PORTAGE COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Cash generated from (used by):		
Operating activities:		
Excess of revenue over expense	$ 1,037,611	$ 228,711
Non-cash transactions		
Amortization of deferred capital contributions (Note 11)	(993,491)	(1,030,027)
Amortization of capital assets	1,662,137	1,731,198
Loss (Gain) on sale of capital assets	6,850	(511)
	1,713,107	929,371
Changes in non-cash working capital (Note 18)	132,482	(310,484)
Cash generated from operating activities	1,845,589	618,887
Investing activities:		
Net increase in non-current cash	(95,914)	(264,873)
Net decrease (increase) in long-term investments	5,668	(63,725)
Acquisition of capital assets - internally funded	(913,340)	(496,393)
Acquisition of capital assets - externally funded	(439,298)	(141,702)
Proceeds on sale of capital assets	8,510	8,675
Cash applied to investing activities	(1,434,374)	(958,018)
Financing activities:		
Capital contributions (Note 10)	670,150	-
Endowment contributions - external	84,543	41,310
Cash generated from financing activities	754,693	41,310
Increase (decrease) in cash and cash equivalents	1,165,908	(297,821)
Cash and cash equivalents at beginning of year	2,602,181	2,900,002
Cash and cash equivalents at end of year	$ 3,768,089	$ 2,602,181

The accompanying notes and schedule are part of these financial statements.

Note 1 Authority and Purpose

Portage College (the "College") operates under the authority of the Post -Secondary Learning Act, Chapter P-19.5, Statutes of Alberta, 2003.

Primarily serving communities in North-Eastern Alberta, the College provides instruction and training to assist adult learners through academic upgrading programs and career entry training in business, human services, trades, technical and service industries. The College maintains a special interest in providing programs to aboriginal communities.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

In preparing the College's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Management believes its estimates to be appropriate, however, actual results could differ from these estimates.

(a) Revenue Recognition

(i) Unrestricted Contributions

Unrestricted operating grants and contributions are recognized as revenue in the period when receivable.

(ii) Restricted Contributions

Externally restricted non-capital grants and contributions are deferred and recognized as revenue in the period when related expenses are incurred.

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing externally funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

Restricted contributions for the purchase of capital assets, that are not subject to amortization, are recorded as deferred capital contributions in the period in which they are received and, when expended, are recognized as direct increases in net assets.

Externally restricted contributions for endowment purposes are not recognized as revenue, but are recorded as direct increases in net assets.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(a) (iii) Investment Income

Investment income subject to external restrictions is, depending on the nature of the restrictions, recorded as a direct increase to net assets, or is deferred and recognized as revenue in the period the related expenses are incurred.

Unrestricted investment income is recognized in the year it is earned.

(iv) Donations

Donations and contributions in kind are recorded at fair value when such value can reasonably be determined.

(v) Program Delivery

Revenue from tuition fees, education contract programs and sale of goods and services is recognized as revenue in the period in which the goods are delivered or the services are provided.

Revenue from long-term education contracts is determined on the percentage of completion method. Provision is made for all anticipated losses as soon as they become evident.

(b) Long-term Investments

Investments are recorded at cost. Gains and losses on investments are recognized in the period of disposal or when there is an impairment other than temporary in the value of the investment.

(c) Inventories

Inventories for resale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Inventories held for consumption are valued at the lower of cost and replacement value.

(d) Capital Assets and Collections

Capital assets are recorded at cost, except donated assets which are recorded at fair value, when fair value can be reasonably determined.

Capital assets are amortized on a straight-line basis over the following estimated average useful lives:

Buildings and site improvements	20 - 40 years
Trailers	20 years
Furniture, vehicles and other equipment	5 - 10 years
Library holdings	5 - 10 years
Computer equipment	4 years
Computer (Agresso) software	5 years
Rental books	2 years
Leasehold improvements	Life of lease

Art collections are recorded at cost and are not amortized. Donated artwork collections are recorded at fair value, when determinable.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(e) Pension Plan Expense and Obligation

The College participates in the Public Service Pension Plan and the Management Employees Pension Plan. These pension plans are multiemployer defined benefit pension plans, that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the cost of employer contributions, for its employees during the year, based on rates which are expected to provide for benefits payable under the respective pension plan. The College's portion of the pension plans' deficit or surplus is not recorded by the College.

(f) Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments.

Note 3 Cash and cash equivalents and Endowments

	2006		2005	
	Carrying Value	Market Value	Carrying Value	Market Value
Consolidated Cash Investment Trust Fund	$ 1,961,036	$ 1,961,036	$ 1,842,380	$ 1,842,380
Bankers Acceptances and Treasury Bills	154,198	154,198	104,576	104,576
Cash	2,762,898	2,762,898	1,669,354	1,669,354
	4,878,132	4,878,132	3,616,310	3,616,310
Held as non-current cash and cash equivalents	(1,110,043)	(1,110,043)	(1,014,129)	(1,014,129)
Held as cash and cash equivalents	$ 3,768,089	$ 3,768,089	$ 2,602,181	$ 2,602,181

The Consolidated Cash Investment Trust Fund ("CCITF") of the Province of Alberta is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on the prevailing market interest rates.

Bankers Acceptances and Government of Canada Treasury Bills all mature within one year. The weighted average effective yield of 1.97% (2005 - 1.97%) represents the rate which discounts future cash receipts to the carrying value at June 30, 2006.

Note 3 Cash and cash equivalents and Endowments (continued)

The amount held as non-current cash and cash equivalents represents funds not available for current operations and includes endowments and net assets internally restricted for capital purposes, as outlined below.

	2006	2005
Endowments [(1)]	$ 570,455	$ 485,912
Board restricted capital funds (Note 12)	236,118	455,599
Deferred Capital Contributions (Note 10)	303,470	72,618
	$ 1,110,043	$ 1,014,129

[(1)] Endowments are comprised of the following:

	2006	2005
Board of Governors Award	$ 370,000	$ 340,000
Trans Canada-Student Bursary	25,000	25,000
Northlands Park Achievement Award	20,000	20,000
Alberta Pacific Bursary	20,000	20,000
Xerox- Outstanding Business Careers Student Award	3,000	3,000
Alberta Pacific Native Cultural Arts Award	2,000	2,000
Fundraising Scholarship	130,455	75,912
	$ 570,455	$ 485,912

Of the net assets restricted for endowment purposes, $417,500 (2005 - $387,500) is subject to externally imposed restrictions stipulating that the resources be maintained permanently. The Board of Governors has internally restricted $152,955 (2005 - $98,412) of unrestricted net assets to be held for endowment purposes. The purpose of the endowments are to award student scholarships and bursaries.

Note 4 Investments

	2006		2005	
	Carrying Value	Market Value	Carrying Value	Market Value
Government of Canada bonds	$ 300,967	$ 297,913	$ 292,528	$ 300,039
Provincial bonds	80,192	82,591	110,222	116,469
Corporate bonds	136,826	135,891	146,968	152,923
Equities	276,309	328,009	250,244	298,678
	$ 794,294	$ 844,404	$ 799,962	$ 868,109

The College recognizes the need to effectively manage all financial resources. The College employs cash and fund management practices, in order to maximize the amounts available for investment. Donations and surplus cash will be invested in order to maximize return while minimizing loss.

The Board of Governors has approved investment guidelines on asset mix, diversification, quality, liquidity and nature of securities, and term constraints.

Government of Canada bonds have a weighted average term to maturity of 5.5 years (2005 - 4.92 years) and stated interest rate of 4.04% (2005 - 4.51%). The average effective yield on these securities is 4.04% (2005 - 3.8%).

Provincial bonds have a weighted average term to maturity of 10.45 years (2005 - 8.58 years) and stated interest rate of 4.97% (2005 - 4.35%). The average effective yield on these securities is 4.11% (2005 - 3.76%).

Corporate bonds have a weighted average term to maturity of 4.32 years (2005 - 5.04 years) and stated interest rate of 5.10% (2005 - 5.02%). The average effective yield on these securities is 4.63% (2005 - 4.54%).

Term to maturity of bonds is based upon the contractual maturity of the security. Effective yields represent the rate that discounts future cash receipts to the carrying value at June 30, 2006. Risk is reduced by the requirement that all bonds must be rated "A" or better by the Dominion Bond Rating Service or an equivalent recognized rating agency.

Note 5 Accounts Receivable

	2006	2005
Accounts receivable	$ 1,166,949	$ 916,086
Allowance for doubtful accounts	(131,360)	(166,853)
	$ 1,035,589	$ 749,233

Note 6 Inventories

	2006	2005
Bookstore and native cultural art supplies	$ 136,840	$ 135,878
Cafeteria supplies	18,743	20,218
Printing supplies	8,544	5,750
Other	10,675	7,771
	$ 174,802	$ 169,617

Note 7 Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings and site improvements	$ 32,036,184	$ 5,070,438	$ 26,965,746	$ 27,791,008
Land	500,000	-	500,000	500,000
Rental books	380,696	373,294	7,402	7,709
Computer equipment	3,088,214	2,549,659	538,555	546,417
Furniture	36,670	32,201	4,469	7,723
Vehicles	625,451	442,716	182,735	153,446
Other equipment	1,299,445	596,940	702,505	561,566
Library holdings	656,021	413,419	242,602	233,530
Trailers	768,935	248,578	520,357	558,803
Computer (Agresso) software	1,199,539	988,049	211,490	354,627
Artwork	346,300	-	346,300	346,300
Leasehold improvements	565,371	482,219	83,152	195,692
Work in Progress	630,535	-	630,535	3,886
	$ 42,133,361	$ 11,197,513	$ 30,935,848	$ 31,260,707

Note 8 Unearned Revenue

	2006	2005
Contract programs	$ 68,525	$ 17,329
Tuition fees	172,476	194,151
Other	83,419	7,132
	$ 324,420	$ 218,611

Note 9 Deferred Contributions

	2006	2005
Restricted contributions received during the period:		
Conditional grants	$ 3,025,635	$ 1,568,215
Restricted endowment investment income (Note 14)	16,963	13,378
Donations and Contributions	1,827	741
	3,044,425	1,582,334
Transferred to revenue:		
Conditional grants	(2,165,798)	(1,699,615)
Restricted endowment investment income (Note 14)	(1,990)	(10,910)
Donations and Contributions	(1,847)	(101)
	(2,169,635)	(1,710,626)
Transferred to payable to the Government of Alberta	(4,642)	(80,878)
Transferred to deferred capital contributions (Note 10)	(670,150)	-
Increase (decrease) during the year	199,998	(209,170)
Balance at beginning of year	805,456	1,014,626
Balance at end of year	$ 1,005,454	$ 805,456

Deferred contributions at the end of the year are restricted for the following purposes:

	2006	2005
Deferred maintenance	$ 237,353	$ 230,365
Program funding	722,249	443,729
Student scholarships and bursaries	33,644	18,051
One time equipment and facility funding	12,208	112,671
Student Life Services	-	640
	$ 1,005,454	$ 805,456

Note 10 Deferred Capital Contributions

	2006	2005
Transferred from deferred contributions (Note 9)	$ 670,150	$ -
Transferred to unamortized deferred capital contributions (Note 11)	(439,298)	(141,702)
Increase (decrease) during the year	230,852	(141,702)
Balance at beginning of year	72,618	214,320
Balance at end of year	$ 303,470	$ 72,618

Note 11 Unamortized Deferred Capital Contributions

	2006	2005
Balance at beginning of year	$ 27,890,534	$ 28,778,859
Transferred from deferred capital contributions (Note 10)	439,298	141,702
Less amount amortized to revenue	(993,491)	(1,030,027)
Balance at end of year	$ 27,336,341	$ 27,890,534

Note 12 Internally Restricted Net Assets

Net assets internally restricted by the Board represent amounts set aside by the College's Board of Governors to be used for the following designated purposes. These amounts are not available for other purposes without approval of the Board.

	2006	2005
Capital:		
Campus Development Fund	$ 55,470	$ 55,470
Housing Development Fund	4,014	4,014
Steamfitter/Pipefitter Lab	176,634	396,115
	236,118	455,599
Operating:		
Furnishings, equipment and renovations	400,000	-
E-learning Technology	350,000	-
Student Scholarship and Bursary Investment Fund	350,000	-
Program Development	391,875	391,875
Professional Services - Transition Fund	234,479	234,479
Financially Assisted Education Leave	100,000	100,000
Emergency Facility Repair	78,088	78,088
Student Needs - Quality of life	20,000	20,000
	1,924,442	824,442
	$ 2,160,560	$ 1,280,041

Note 13 Sales, Rentals and Services

	Revenue	Direct Expense	2006 Net	2005 Net
Food Services	$ 418,938	$ 428,584	$ (9,646)	$ (25,817)
Housing	822,096	883,334	(61,238)	64,558
Bookstore and Native Art Sales	703,914	556,313	147,601	103,386
Community Use	30,934	40,658	(9,724)	(2,462)
	$ 1,975,882	$ 1,908,889	$ 66,993	$ 139,665

In addition to the direct expenses, facility amortization related to sales, rentals and services for the year was $186,304 (2005 - $186,304). This allocation was calculated based on square footage occupied.

Note 14 Investment Income

	2006	2005
Investment earnings	$ 208,063	$ 136,764
Add amounts transferred from deferred contributions (Note 9)	1,990	10,910
Less amounts transferred to deferred contributions (Note 9)	(16,963)	(13,378)
Total investment income recognized as revenue	$ 193,090	$ 134,296

Note 15 Expense by Function

	2006	2005
Instruction - Credit	$ 8,940,777	$ 9,058,286
Instruction - Non-Credit	706,401	227,514
Facilities operations and maintenance	4,977,715	4,555,833
Institutional support	2,742,686	2,392,895
Academic support	1,803,980	1,626,199
Student services	2,165,974	2,074,668
Ancillary services (Note 13)	2,095,194	1,783,771
Computing, network and communications	876,122	757,846
Fund raising	2,350	46,969
Total Expenses	$ 24,311,199	$ 22,523,981

Instruction encompasses all formal education and instructional program elements. Facilities operations and maintenance includes all costs of the daily operations of the buildings occupied by the College, property taxes and amortization on capital equipment and buildings. Institutional support includes all activities that provide institution-wide support to other programs. Academic support includes all activities that directly support the education and instruction elements such as academic administration, library and audio-visual services. Student services includes all activities or services to the student body of the institution such as counselling, recreation and registrar's office. Ancillary services include direct and indirect costs of operating food services, native art sales, community use, housing and bookstore. Computing, network and communications includes all costs expended to maintain the College's hardware and software. Fund raising includes guest speaker honoraria, event promotion and all other direct costs associated with the events.

Note 16 Salaries, Wages and Benefits

The following information is prepared in accordance with Treasury Board Directive 03-04:

	2006				2005
	Salary[1]	Other Cash Benefits[2]	Other Non Cash Benefits[3]	Total	Total
Board Chair	$ -	$ 3,892	$ -	$ 3,892	$ 4,110
Board Members (13 members)	-	10,378	236	10,614	11,668
President [4]	138,788	23,837	26,250	188,875	177,777
Vice President of Academics [5]	126,057	1,553	24,946	152,556	122,037
Vice President of Student and College Services	104,004	-	24,356	128,360	114,568
Dean of Community and Industry Training [6]	96,107	33,670	21,149	150,926	104,662
Assoc. Deans of Learning and Employment Foundation	178,200	-	42,509	220,709	143,432
Dean of Health, Business and Human Services	95,808	423	22,317	118,548	104,189
Manager Finance and Administration [7]	80,824	7,626	19,848	108,298	76,651
Registrar	84,276	-	21,080	105,356	93,531

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include bonuses, overtime, lump sum payments, honoraria, and pay in lieu of benefits.

(3) Other non cash benefits include the College's share of all employee benefits and contributions or payments made on behalf of employees, including pension, health care, dental coverage, vision coverage, out of country medical insurance, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, professional and club memberships and professional development.

(4) The President 's other benefits include standard benefits available to all College employees as well as additional items negotiated in his contract including: professional development allotment, memberships and severance agreement. An automobile was also provided, with no dollar amount included in the other non cash benefits figure.

(5) The position of Vice President of Academics was occupied by two incumbents during the 2005-06 fiscal year.

(6) The position of Dean of Community and Industry Training was occupied by two incumbents during the 2005-06 fiscal year.

(7) Two incumbents occupied this position during the 2005-06 fiscal year; two incumbents occupied this position during the 2004-05 fiscal year. The position was vacant for three months during the 2004-05 fiscal year.

Note 17 Pension Costs

The College participates in two multiemployer pension plans, the Public Service Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP). The expense for these plans is $948,229 for the year ended June 30, 2006 (2005 - $798,063).

Public Service Pension Plan

At December 31, 2005, the PSPP reported a deficiency of $187,704,000 (2004 - $450,068,000).

Management Employee Pension Plan

At December 31, 2005, the MEPP reported a deficiency of $165,895,000 (2004 - $268,101,000).

Note 18 Changes in Non-cash Working Capital

	2006	2005
Accounts receivable	$ (286,356)	$ 279,207
Inventories	(5,185)	25,703
Prepaid expenses	43,345	26,823
Accounts payable and accrued liabilities	51,658	(183,325)
Accrued vacation pay	23,213	36,282
Unearned revenue	105,809	(286,004)
Deferred contributions	199,998	(209,170)
	$ 132,482	$ (310,484)

Note 19 Commitments

Future minimum annual lease payments under operating leases and other commitments are:

2007	$ 167,532
2008	$ 97,675
2009	$ 28,629
2010	$ 28,629
2011 and thereafter	$ 20,306

Note 20 Art Collection

The College's art collection is comprised of:

(a) Native Cultural Arts Museum Collection

The Native Cultural Arts Museum Collection consists of Aboriginal art and craft works, which have been collected from across Canada and the United States. The majority of the pieces were purchased from artists and dealers. Students, staff and guest instructors have donated numerous pieces to the Collection. Articles from the Collection are used for displays, both on and off campus, and for instructional support in the Native Cultural Arts programs. All pieces in the Collection are numbered, photographed and described in the Collection records.

(b) Other Art Works

The College has also acquired, either through purchases or donation, other art works, which are displayed throughout the College buildings. Approximately 85% of the art display depicts native heritage. The mediums include watercolour, silk-screens, black and white photography, color photography and reproduced prints. The remainder of the display depicts the surrounding areas and peoples of Lac La Biche.

Note 21 Related Parties

a) Significantly Influenced Organizations

(i) Lac La Biche Childcare Association

The College exercises significant influence over the Lac La Biche Childcare Association (the "Childcare Association") through a contractual arrangement whereby the children of students of the College are given priority placement.

The Childcare Association is incorporated under the Societies Act of the Province of Alberta and exists to provide daycare services to Lac La Biche and surrounding communities.

The College, as owner of the buildings, provides the Childcare Association, at no charge, the space needed to operate a daycare, care taking services, repairs, heating, lighting, telephone, parking spaces, furniture and equipment. For the year ended June 30, 2006, the College incurred related expenses of $133,219 (2005- $135,023) on behalf of the Childcare Association, which are reflected in the College's statement of operations.

The College also provides $37,846 (2005-$37,340) annually to the Childcare Association to subsidize its operations. There is an option to renegotiate and renew this contract.

The College also provided a one-time grant of $20,000 to the Childcare Association to subsidize its operations in June of 2006

(ii) Portage Aquatic Association

The Portage Aquatic Association (the "Aquatic Association") was incorporated under the Alberta Business Corporations Act. It operates the Aquatic Centre with the objective to encourage, promote and provide aquatic training and recreational opportunities to prospective patrons. The College has an agreement with the Aquatic Association to make available aquatic training and recreational opportunities to College staff and students.

As of July 1, 2005, the College entered into an agreement with the Aquatic Association, Lakeland County and the Town of Lac La Biche in which the College contributes annually a lump sum of $139,337 (2005 - $128,922). The term of this agreement is from July 1, 2005 to June 30, 2008. Annual janitorial, management and other maintenance costs are no longer paid by the College. The College continues to own the building and recognized amortization in the amount of $45,602 (2005 - $45,602) for the current year.

In this agreement, the Aquatic Association has the ability to contract out maintenance. For the year ended June 30, 2006 the Aquatic Association chose to contract the maintenance back to the College. The College recognized $8,395 (2005 - $9,770) of revenue from this maintenance contract.

On behalf of students and to provide recreational programming, the College purchased $13,934 (2005-$17,816) in services from the Aquatic Centre during the year ended June 30, 2006.

At June 30, 2006, the accounts receivable balance include an amount of $27,037 (2005 - $30,927) owing from the Aquatic Centre for power usage and other purchases from the College.

Note 21 Related Parties (continued)

b) Alberta Government and Alberta Post Secondary Education Institutions

The College is a Provincial Corporation. All of the members of the Board of Governors are appointed pursuant to the Post Secondary Learning Act or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education.

In the normal course of operations, the College engages in brokerage and other collaborative arrangements with other post-secondary educational institutions in Alberta. These institutions are also Provincial Corporations.

The College had the following transactions with related parties:

	Alberta Government		Post Secondary Collaboration	
	2006	2005	2006	2005
Revenues:				
Advanced Education:				
Operating contributions	$14,288,306	$ 13,408,063	$ -	$ -
Conditional contributions received	1,401,393	1,013,641	-	-
Other provincial departments and agencies received	1,907,564	554,575	-	-
Contributions received during the year	17,597,263	14,976,279	-	-
Conditional contributions deferred from prior years	860,022	1,213,363	-	-
Less contributions deferred at the end of the year	(971,810)	(786,765)	-	-
Less transfers to deferred capital contributions	(742,768)	(214,320)	-	-
Less transfers to accrued liabilities	(4,642)	(80,878)	-	-
Earned Government of Alberta contributions	16,738,065	15,107,679	-	-
Contract income	44,257	117,145	85,490	68,440
	$ 16,782,322	$ 15,224,824	$ 85,490	$ 68,440
Expenses	$ 37,556	$ 107,413	$ 112,577	$ 120,641
Accounts receivable	$ 69,344	$ 171,760	$ 80,945	$ 60
Accounts payable	$ 4,873	$ 90,667	$ 7,496	$ 28

c) Joint Venture

On December 18, 1998, the Lieutenant Governor in Council approved the establishment of a corporation, to be owned equally by Portage College, Northern Lakes College, NorQuest College and Bow Valley College. On February 10, 1999, 818196 Alberta Ltd. was incorporated pursuant to the Alberta Business Corporations Act.

The Corporation was created for the purpose of holding jointly developed intellectual property transferred from her Majesty the Queen in Right of the Province of Alberta as represented by the Minister of Advanced Education. The fair value of the intellectual property transferred is not determinable. As at June 30, 2006, this Corporation was not active.

Note 22 Contingent Liability

There are two unresolved claims against the College. While the outcome of those claims cannot be predicted at this time, it is the opinion of management that the resolution of these claims will not have a material effect on the financial statements of the College, and it has not been reflected in these statements.

Note 23 Budget

The College is required to submit a budget, approved by the Board of Governors of the College, to the Minister of Advanced Education for his approval. The Board of Governors approved the College's Budget on April 13, 2006.

Note 24 Funds Held on Behalf of Others

The following funds, held by the College on the behalf of others, are not included in these financial statements:

	2006	2005
Portage Aquatic Association	$ 114,130	$ 186,923
Faculty Association	141,820	137,369
Employee Funded Leave	83[illegible]	147,273
Other Funds Held	173,[illegible]	125,785
Security Deposits Held	22,308	20,448
	$ 535,465	$ 617,797

Note 25 Comparative Figures

Certain comparative amounts have been reclassified where necessary to conform to the current year's financial statement presentation.

Note 26 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

Schedule 1 Continuing Education Programming

	2006							2005
	Trades, Technical & Safety	Forestry	Health	Computer & Office	Driver	Other	Total	Total
Revenue	$ 723,811	$ 497,267	$ 589,544	$ 41,043	$ 476,277	$ 10,000	$ 2,337,942	$ 2,222,509
Less:								
Direct Expenses:								
Salaries, wages and benefits	437,557	195,103	99,556	10,927	52,243	-	795,386	945,406
Supplies and other expenses	259,618	177,096	393,839	7,811	378,951	10,603	1,227,918	802,149
	697,175	372,199	493,395	18,738	431,194	10,603	2,023,304	1,747,555
Indirect costs (1)	87,436	77,768	44,577	7,357	42,769	-	259,907	305,528
Excess of revenue over expense	$ (60,800)	$ 47,300	$ 51,572	$ 14,948	$ 2,314	$ (603)	$ 54,731	$ 169,426

The College actively works with industry, native communities and other organizations to provide customized training on a cost recovery basis. The College expects Continuing Education departments to cover all direct costs plus an estimated amount to cover indirect costs to deliver these programs - see footnote below.

Any revenues and expenditures related to Continuing Education program delivery can be grouped within any or all of the categories on the statement of operations.

(1) The amounts shown as indirect costs are calculated based on a percentage of gross program revenue on a scale ranging from 0% to a maximum of 20%.

RED DEER COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Revenue and Expense

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flow

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Red Deer College

I have audited the consolidated statement of financial position of Red Deer College as at June 30, 2006 and the consolidated statements of revenue and expense, changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 14, 2006

RED DEER COLLEGE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2006

	2006	2005
ASSETS		
Current:		
Cash	$ 16,762,232	$ 1,823,464
Investments (Note 3)	17,369,509	9,484,481
Accounts receivable	1,059,772	1,147,547
Inventories	988,603	822,197
Prepaid expenses	450,737	282,234
	36,630,853	13,559,923
Investments (Note 3)	6,134,431	5,927,279
Art collections (Note 4)	1,316,885	1,315,875
Capital assets (Note 5)	54,084,007	55,080,959
	$ 98,166,176	$ 75,884,036
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 5,301,740	$ 4,292,097
Accrued vacation pay	3,290,426	3,120,007
Unearned revenue	2,240,305	1,730,205
Deferred contributions for operating purposes (Note 6)	6,785,488	2,235,538
Current portion of capital lease obligation (Note 8)	443,335	509,727
Current portion of long-term debt (Note 9)	241,024	226,746
	18,302,318	12,114,320
Long-term portion of capital lease obligation (Note 8)	343,860	591,749
Long-term debt (Note 9)	5,874,885	6,115,909
Deferred contributions for capital purposes (Note 7)	16,833,002	-
Unamortized deferred capital contributions (Note 10)	33,594,973	34,315,079
	74,949,038	53,137,057
Net assets:		
Endowments (Note 11)	4,896,970	4,689,818
Investment in capital assets and art collections	14,902,815	14,637,624
Internally restricted (Note 12)	1,614,956	2,011,957
Unrestricted net assets	1,802,397	1,407,580
	23,217,138	22,746,979
	$ 98,166,176	$ 75,884,036

The accompanying notes are an integral part of these financial statements.

RED DEER COLLEGE

CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE

FOR THE YEAR ENDED JUNE 30, 2006

	Budget (Note 23)	2006	2005
Revenue:			
Grants, Province of Alberta (Note 13)	$ 31,746,000	$ 32,219,265	$ 29,531,752
Educational contracts	1,727,000	2,623,798	2,116,497
Tuition and related fees (Note 14)	15,956,000	15,759,524	15,501,854
Ancillary services (Note 15)	6,817,000	7,125,486	6,511,844
Sales, rentals and services	1,516,000	1,434,779	1,463,014
Investment income (Note 16)	600,000	653,866	612,583
Donations and endowment interest	708,000	870,297	831,292
Amortization of deferred capital contributions (Note 10)	2,430,000	2,570,274	2,569,271
	61,500,000	63,257,289	59,138,107
Expense:			
Salaries and benefits	40,850,000	41,424,601	38,130,718
Supplies and services	11,609,700	12,278,486	11,456,487
Utilities	1,948,300	1,981,735	1,818,242
Scholarships and bursaries	270,000	290,732	275,202
Cost of goods sold	2,532,000	2,781,629	2,526,471
Contingency	220,000	-	-
Amortization and write down of capital assets	4,070,000	4,237,099	4,137,292
	61,500,000	62,994,282	58,344,412
Excess of revenue over expense for current operations	-	263,007	793,695
Gain on disposal of land (Note 17)	-	-	212,166
Excess of revenue over expense	$ -	$ 263,007	$ 1,005,861

The accompanying notes are an integral part of these financial statements.

RED DEER COLLEGE

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	2006					2005
	Endowments (Note 11)	Investment in Capital Assets and Art Collections	Internally Restricted (Note 12)	Unrestricted	Total	Total
Beginning of year	$ 4,689,818	$ 14,637,624	$ 2,011,957	$ 1,407,580	$ 22,746,979	$ 21,525,656
Excess of revenue over expense	-	-	-	263,007	263,007	1,005,861
Endowments received	124,408	-	-	-	124,408	87,714
Investment income added to endowment principal (Note 16)	82,744	-	-	-	82,744	94,508
Transfers:						
Purchase of capital assets	-	1,183,423	-	(1,183,423)	-	-
Amortization	-	(1,550,827)	-	1,550,827	-	-
Net book value of capital assets disposed or written down	-	(115,998)	-	115,998	-	-
Repayment of long-term debt and capital lease	-	748,593	-	(748,593)	-	-
Transfer to unrestricted net assets from internally restricted for Residence renovations	-	-	(562,024)	562,024	-	33,240
Board allocation to internally restricted net assets	-	-	165,023	(165,023)	-	-
End of year	$ 4,896,970	$ 14,902,815	$ 1,614,956	$ 1,802,397	$ 23,217,138	$ 22,746,979

The accompanying notes are an integral part of these financial statements.

RED DEER COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Cash generated from operating activities:		
Excess of revenue over expense	$ 263,007	$ 1,005,861
Add:		
Amortization and write down of capital assets	4,237,099	4,137,292
Gain on disposal of land	-	(212,166)
Amortization of deferred capital contributions	(2,570,274)	(2,569,271)
	1,929,832	2,361,716
Changes in non-cash working capital (Note 19)	5,992,978	1,091,467
Cash generated from operating activities	7,922,810	3,453,183
Investing activities:		
Acquisition of capital assets and collections		
Internally funded	(1,183,423)	(579,071)
Debenture funded	-	(1,600,000)
Externally funded (Note 10)	(1,850,168)	(717,299)
Purchase of investments - current	(7,885,028)	(1,274,253)
Disposal (purchase) of investments - long-term	(207,152)	344,711
Cash applied to investing activities	(11,125,771)	(3,825,912)
Financing activities:		
Repayment of long-term debt	(226,746)	(179,319)
Repayment of capital lease	(521,847)	(475,653)
Capital contributions received (net of transfers) (Note 7)	18,683,170	190,366
Endowments contributions	207,152	182,222
Addition of long-term debt	-	1,600,000
Cash generated from financing activities	18,141,729	1,317,616
Increase in cash	14,938,768	944,887
Cash at beginning of year	1,823,464	878,577
Cash at end of year	$ 16,762,232	$ 1,823,464

The accompanying notes are an integral part of these financial statements.

Note 1 Authority and Purpose

Red Deer College operates under the authority of the Post-Secondary Learning Act, Statues of Alberta 2003, Chapter P-19.5.

The College provides a wide range of quality educational opportunities designed to promote success of learners and the enrichment of life in the communities it serves. The College is mandated to provide certificates, diplomas, applied degrees and a wide variety of non-credit offerings through adult development programs, career-oriented studies, trades training and university undergraduate studies.

The College is exempt from the payment of income tax under Section 149 of the Income Tax Act.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Consolidation

The financial statements include the accounts of the College and the Red Deer College Foundation.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the organization may undertake in the future. Actual results may differ from management's best estimates as additional information becomes available in the future. Significant estimates were made by management with respect to valuation of inventory, estimated useful lives of capital assets and deferred pension plan obligations.

(c) Inventories

Inventories of merchandise for resale are valued at the lower of cost and net realizable value. Cost is determined using the retail cost method. Inventories of supplies for consumption are valued at the lower of cost and replacement value. Cost is determined on the first-in, first-out basis.

(d) Investment

Investments are recorded at cost or amortized cost. Amortization of discount or premium is on a straight-line basis over the life of the investment. Gains or losses on sales of investments are recognized as investment income in the year of sale.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Investment (continued)

Where impairment in the value of the investment is other than temporary, a charge to income will be recognized as an unrealized loss on investments.

(e) Art Collections

Art collections are recorded at cost except for donated items, which are recorded at fair market value at the time of receipt.

(f) Capital Assets

Capital assets are amortized on a straight-line basis over the following average useful lives:

Buildings	40 years
Infrastructure	25 years
Land improvements	12 years
Furnishings, equipment and vehicles	10 years
Library books and media	10 years
Computer software	5 years
Computer hardware (acquired prior to 2005)	5 years
Computer hardware and computer leases	3 years

(g) Financial Instruments

The financial instruments consist of cash, investments, accounts receivable, accounts payable and accrued liabilities, accrued vacation pay, long-term debt and capital lease obligation. Financial instruments are initially recorded at cost. If subsequent circumstances indicate that a decline in fair value of a financial instrument is other than temporary, the financial asset is written down to its fair value.

The fair value of accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to the short time to receipt or payment of cash. The fair value of long-term debt and capital leases approximates their carrying value, as the average interest rate charged is consistent with the college incremental borrowing rate. The fair value of accrued vacation pay is not readily determinable as there are no conditions for the timing of repayment.

The financial instruments that are exposed to credit risk consist of accounts receivable, certain short-term investments and certain long-term investments. The risk is limited by the College's investment policy and collection procedures.

The capital lease, long-term debt, and certain investments have fixed interest rates and are exposed to interest rate price risk.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Financial Instruments (continued)

Certain investments have variable interest rates and are exposed to interest rate cash-flow risk.

Certain investments are exposed to market price risk.

Red Deer College is exposed to foreign exchange rate risk as they have transactions in the United States currency. Transactions denominated in United States currency are measured at the average weighted cost of the currency. Monetary assets and liabilities denominated in United States currency are translated into Canadian dollars at rates of exchange in effect at the date of the balance sheet.

(h) Revenue Recognition

Unrestricted grants are recognized in the period when they become receivable. Unrestricted grants received for a future period are deferred until that future period.

Capital grants are recorded as deferred contributions for capital purposes until the amount is invested in capital assets. Amounts invested representing funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the amortization of deferred capital contributions are matched to indicate that the related amortization expense has been funded.

Restricted contributions and donations are recognized as revenue if the amounts have been received and the related expenses have been incurred. Unrestricted contributions and donations are recognized as revenue when received.

Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Donations of capital assets that will not be amortized and artwork collections are recognized as direct increases in net assets. Permanent impairment in values of these items is recognized as a reduction in net assets.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(h) Revenue Recognition (continued)

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by external parties. Any externally restricted contributions containing stipulations that the amounts should be retained as net assets, or that the contributions should not be expended, are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property.

The College recognizes tuition and related fees, ancillary services and sales, rentals and services revenue in the period when the services are provided.

The College recognizes investment and interest income in the period earned.

(i) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees, based on years of service and earnings.

Pension cost is disclosed as a part of salaries and benefits and are comprised of the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the Local Authorities Pension Plan. The College's portion of the pension plan's deficit or surplus is not recorded by the College.

The College participates in a Supplementary Employees Retirement Plan for certain specified employees of the College. The plan is a defined benefit plan, is non-registered, unfunded and the liability is determined by an actuarial valuation using estimates described in note 22.

The plan costs are disclosed as part of the salaries and benefits.

Note 3 Investments

Investments are summarized as follows:

	2006	2005
Treasury bills and other	$ 5,108,461	$ 1,039,499
Bonds and coupons	9,539,164	5,739,924
Stocks and equity mutual funds	8,856,315	8,632,337
	23,503,940	15,411,760
Held as long-term investments	(6,134,431)	(5,927,279)
Current portion of investments	$ 17,369,509	$ 9,484,481

The market value of the investments are as follows:

Treasury bills and other	$ 5,121,599	$ 1,040,077
Bonds and coupons	9,299,019	5,991,877
Stocks and equity mutual funds	10,564,105	9,903,807
	$ 24,984,723	$ 16,935,761

Note 3 Investments (continued)

These investments mature as follows

	Cost
Non maturing (Stocks and equity mutual funds)	$ 8,856,315
2007	5,108,461
2008	1,458,410
2009	2,370,236
2010	872,986
2012	479,587
2013	294,339
2014	676,845
2015	389,610
2016	1,056,670
2028	567,236
2029	1,373,245
	$ 23,503,940

The College's fixed income investments of $14,647,625 (2005 - $6,779,423) have an effective interest rate of 4.15% (2005 - 4.72%). The rate of return on the balance of the portfolio, comprised of mutual fund and stock holdings, is dependent on the fund's performance.

Note 4 Art Collections

Art collections represent paintings, sketches and drawings held to further the College's education and research activities.

Note 5 Capital Assets

(a) Summary of Cost and Net Book Value

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land and improvements	$ 10,251,827	$ 500,296	$ 9,751,531	$ 9,818,137
Buildings and infrastructure	72,497,725	33,571,116	38,926,609	39,127,008
Library books and media	1,416,930	993,534	423,396	411,729
Furnishings and equipment	12,287,406	8,251,709	4,035,697	3,661,432
Computer hardware	2,512,526	2,157,220	355,306	950,918
Computer software	2,670,228	2,621,783	48,445	172,647
Computer leases	2,814,162	2,413,620	400,542	755,282
Vehicles	460,520	318,039	142,481	183,806
	$104,911,324	$ 50,827,317	$54,084,007	$55,080,959

(b) Donations in Kind

During the year there were donations in kind of equipment in the amount of $5,632 (2005 - $124,978).

Note 6 Deferred Contributions for Operating Purposes

Deferred contributions for operating purposes represent unspent contributions externally restricted for non-capital purposes.

	2006	2005
Contributions:		
Grants	$ 7,930,450	$ 6,204,087
Donations	859,741	865,517
Interest (Note 16)	251,799	283,212
	9,041,990	7,352,816
Transfer from (to) deferred capital contributions (Note 7)	(625,187)	293,557
	8,416,803	7,646,373
Transferred to revenue:		
Grants, Province of Alberta	2,996,556	5,884,393
Donations and interest	870,297	863,409
	3,866,853	6,747,802
Increase during the year	4,549,950	898,571
Deferred contributions at beginning of year	2,235,538	1,336,967
Deferred contributions at end of year	$ 6,785,488	$ 2,235,538

The balance consists of funds restricted for:

	2006	2005
Access / Apprenticeship	$ 3,717,894	$ 1,020,000
Infrastrucuture renewal	2,011,458	423,258
Scholarships and bursaries	993,118	792,280
Other	63,018	-
	$ 6,785,488	$ 2,235,538

Note 7 Deferred Contributions for Capital Purposes

Deferred contributions for capital purposes represent unspent externally restricted capital funds.

	2006	2005
Contributions:		
Grants	$ 17,941,540	$ 60,000
Donations	116,443	423,923
	18,057,983	483,923
Transfer from (to) deferred contributions (Note 6)	625,187	(293,557)
	18,683,170	190,366
Transfer to unamortized deferred capital contributions (Note 10)	1,850,168	717,299
Increase (Decrease) during the year	16,833,002	(526,933)
Deferred contributions for capital purposes at beginning of year	-	526,933
Deferred contributions for capital purposes at end of year	$ 16,833,002	$ -

The balance consists of funds restricted for:

Facility expansion	$ 16,721,502	$ -
Confluence Campus	111,500	-
	$ 16,833,002	$ -

Note 8 Capital Lease Obligation

Capital lease obligation is comprised of several leases with interest rates ranging from 4.50% to 5.41% that expire from July 2006 to May 2009.

Future minimum lease payments are due in the following fiscal periods as follows:

2007	$ 470,707
2008	293,940
2009	60,841
	825,488
Less amount representing interest	(38,293)
	787,195
Less current portion	(443,335)
	$ 343,860

The College has pledged leased assets as security over these obligations. During the year, interest on capital lease obligations amounting to $39,299 (2005 - $26,196) has been expensed to supplies and services.

Note 9 Long-Term Debt

Long-term debt is summarized as follows:

	Principal Outstanding	
	2006	2005
Student residences, debenture repayable in semi-annual blended installments of $43,382 at 7.25% per annum interest, maturing November 2007.	$ 121,249	$ 195,178
Student residences, debenture repayable in annual blended installments of $216,255 at 6.25% per annum interest, maturing March 2025.	2,366,541	2,430,867
Student residences, debenture repayable in annual blended installments of $179,921 at 6.00% per annum interest, maturing April 2026.	2,063,685	2,116,610
Student residences, debenture repayable in annual blended installments of $53,728 at 4.52% per annum interest, maturing June 2030.	1,564,434	1,600,000
Total long-term debt	6,115,909	6,342,655
Less current portion	(241,024)	(226,746)
	$ 5,874,885	$ 6,115,909

The repayment of principal in the next five fiscal years is as follows:

2007	$ 241,024
2008	212,839
2009	180,858
2010	191,321
2011	202,397

Note 9 Long-Term Debt (continued)

The College has provided all proceeds derived directly or indirectly from the operations of the residence buildings as security over these loans under a general security agreement. Included in supplies and services is $363,651 (2005 - $304,118) of interest on long-term debt. Debentures in the amount of $5,994,660 (2005 - $6,147,477) are held with Alberta Capital Finance Authority, which is a related party of the College.

Note 10 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the funded portion of capital assets, which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contributions balance are as follows:

	2006	2005
Balance at beginning of year	$ 34,315,079	$ 36,167,051
Add amount transferred from deferred contributions for capital purposes (Note 7)	1,850,168	717,299
Less amount amortized to revenue	(2,570,274)	(2,569,271)
	$ 33,594,973	$ 34,315,079

Note 11 Endowments

Endowments are comprised of externally and internally restricted amounts, which are required to be maintained intact except where a donor or the Board of Governors, for internally restricted amounts, agrees to a reallocation for expendable purposes. The terms of certain endowments require the College to maintain the real value of the endowments. Accordingly, a portion of annual investment income earned on the endowment is added to the principal amount. Internally restricted endowments amounted to $640,319 in 2006 (2005 - $621,454).

Note 12 Internally Restricted Net Assets

Net assets internally restricted are held for the following purposes. These amounts are not available for other purposes without the approval of the Board of Governors.

	2006	2005
Innovative instruction	$ 377,495	$ 212,472
College sustainability fund	1,237,461	1,237,461
Residence renovation funds	-	562,024
Net assets internally restricted	$ 1,614,956	$ 2,011,957

Note 13 Related Party Transactions

The College is a Provincial Corporation as all the members of the Board of Governors are appointed through the Post-Secondary Learning Act by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the College and the Province are disclosed as follows in the Consolidated Statement of Revenue and Expense or as part of the deferred contributions balance on the Consolidated Statement of Financial Position:

Note 13 Related Party Transactions (continued)

Fiscal 2005/2006	Grants, Province of Alberta	Deferred Contributions for Operating Purposes	Deferred Contributions for Capital Purposes
Operations grant	$ 28,774,138	$ -	$ -
Conditional performance	189,105	-	-
Access/Apprenticeship	2,996,556	3,717,894	-
Infrastructure renewal	-	2,011,458	-
Expansion Grant	-	-	16,721,502
Other	259,466	63,018	111,500
	$ 32,219,265	$ 5,792,370	$ 16,833,002

Fiscal 2004/2005	Grants, Province of Alberta	Deferred Contributions for Operating Purposes	Deferred Contributions for Capital Purposes
Operations grant	$ 23,361,131	$ -	$ -
Conditional performance	278,958	-	-
Access/Apprenticeship	5,208,105	-	-
Infrastructure renewal	275,287	423,258	-
Other	408,271	-	-
	$ 29,531,752	$ 423,258	$ -

During the year, the College conducted business transactions with other public colleges, universities and provincial government departments and agencies. These transactions were entered into on the same business terms as with non-related parties and are recorded at their fair values.

Note 13 Related Party Transactions (continued)

	2006	2005
Amounts Paid or Payable:		
Alberta Health and Wellness	$365,510	$352,524
Northern Alberta Institute of Technology	202,911	151,635
Southern Alberta Institute of Technology	139,000	129,745
Amounts Received or Receivable:		
University of Alberta	$342,151	$325,461
University of Calgary	397,804	301,911

Note 14 Tuition and Related Fees:

	2006		2005	
	Budget	Actual	Budget	Actual
Credit	$ 11,815,000	$ 11,310,933	$ 12,010,000	$ 11,440,767
Apprenticeship	1,290,000	1,585,393	1,290,000	1,338,025
Credit free	2,851,000	2,863,198	2,540,000	2,723,062
Total tuition and related fees	$ 15,956,000	$ 15,759,524	$ 15,840,000	$ 15,501,854

Note 15 Ancillary Services

Ancillary services operations are as follows:

	Revenue	Direct Expense	2006 Net	2005 Net
Bookstore	$ 3,697,889	$ 3,301,338	$ 396,551	$ 360,444
Student residences	2,334,101	1,775,508	558,593	534,194
Child care centres	531,080	561,364	(30,284)	758
Parking	562,416	345,649	216,767	188,223
	$ 7,125,486	$ 5,983,859	$ 1,141,627	$ 1,083,619

Note 16 Investment Income

	2006	2005
Investment earnings in the year	$ 988,409	$ 990,303
Amount earned on deferred funds (Note 6)	(251,799)	(283,212)
Investment earnings on endowments	(82,744)	(94,508)
Investment earnings - unrestricted	$ 653,866	$ 612,583

Note 17 Gain on Disposal of Land

Prior to June 30, 2003, the College entered into an agreement with the David Thompson Health Region to construct a long-term care facility on College premises. Pursuant to this agreement, the College has agreed to provide a long-term lease on land with a fair market value of $1,766,400. As consideration for this transaction, the College has received building and equipment in the amount of $1,350,000 and cash reimbursements up to $416,400 to defray the costs of negotiating the lease and the site servicing costs.

As at June 30, 2005, the project was complete and the College has recorded the final portion of a gain on disposal of land in the amount of $212,166 (2004 - $1,263,452) which represents the amounts recorded relating to additions of building, equipment and site servicing. In addition, the College has recorded $9,931 (2004 - $49,874) related to reimbursements to lease negotiation costs as sales, rentals and services revenue.

Note 18 Salaries and Benefits

The salary and benefit disclosure is provided pursuant to a Treasury Board Directive 12/98 amended July 6, 2004 and includes only the salary and benefits of those individuals in the senior decision making group of the College.

	2006				2005
	Base Salary (1)	Other Cash Benefits (2)	Other Non Cash Benefits (3)(4)	Total	Total
Chairman of the Board	$ -	$ 3,000	$ -	$ 3,000	$ 3,000
Board members	-	16,431	-	16,431	16,499
President	160,933	-	64,164	225,097	209,202
Executive Vice President Academic	130,714	-	24,641	155,355	153,444
Vice President College Services	133,356	-	23,836	157,192	145,387
Associate Vice President of Community Relations	127,212	-	27,770	154,982	140,532
Associate Vice President of Human Resources and Leadership Development	113,035	-	20,096	133,131	107,809
Associate Vice President of Student Services and International	115,248	-	17,107	132,355	121,430
Associate Vice President of Strategic Planning and Research	115,248	-	21,262	136,510	34,213
	$ 895,746	$ 19,431	$ 198,876	$ 1,114,053	$ 931,516

(1) Salary includes pensionable base pay.

(2) Other cash benefits include bonuses, overtime, lump sum payments and honoraria.

Note 18 Salaries and Benefits (continued)

(3) Employers share of all employee benefits and contributions or payments made on behalf of employees including Local Authorities Pension, Teachers' Retirement Fund, Canada Pension Plan, employment insurance, workers' compensation, health care, dental coverage, extended health care, group life and accidental death and dismemberment insurance, professional memberships and tuitions. Other non-cash benefits figure also includes the employer's share of the cost of additional benefits including travel allowances, car allowances, club memberships, Red Deer College Supplementary Employees Retirement Plan and future sabbatical costs vested with the employer.

(4) The President, Executive Vice President of Academic, Vice President of College Services, Associate Vice President of Community Relations, Associate Vice President of Human Resources and Leadership Development, and the Associate Vice President of Strategic Planning and Research belong to a supplementary pension plan. See note 22 for details on the non-cash benefit for the supplementary pension plan.

Note 19 Changes in Non-Cash Working Capital

	2006	2005
Accounts receivable	$ 87,775	$ (85,854)
Inventories	(166,406)	87,304
Prepaid expenses	(168,503)	27,220
Accounts payable and accrued liabilities	1,009,643	(89,705)
Accrued vacation pay	170,419	220,833
Unearned revenue	510,100	1,053,098
Deferred contributions	4,549,950	(121,429)
	$ 5,992,978	$ 1,091,467

Note 20 Pension Costs

The pension expense recorded in these financial statements is equivalent to the College's annual contributions of $2,284,870 for the year ended June 30, 2006 (2005 - $1,962,498).

At December 31, 2005 the Local Authorities Pension Plan reported a deficiency of $863,558,000 (2004 – $1,288,924,000). Effective January 1, 2005, the employers' contribution rate was increased by 1%. Rates were increased further on January 1, 2006 by 0.77%.

Note 21 Commitments

Facility Commitments
Subsequent to June 30, 2006, the College entered into agreements for services in connection with the Building Communities Through Learning project. The estimated cost to complete the project as at June 30, 2006 is $49,000,000.

Subsequent to June 30, 2006, the College entered into agreements for the renovation and maintenance of facilities. The College's contractual obligation subsequent to year-end is estimated at $1,294,084.

Prior to June 30, 2006, the College entered into agreements for the renovation and maintenance of facilities. The College's contractual obligation subsequent to year-end is estimated at $507,901 (2005 - $562,024).

The College's operating lease obligation at June 30, 2006 is $298,212 (annual $98,169) expiring June 2009 and $325,661 (annual $80,466) expiring June 2010.

Utility Commitments
In order to manage its exposure to volatility in the electrical and gas industry, the Board of Governors has entered into the following contracts:

Electrical: A 5-year contract, beginning September 21, 2006, at a fixed rate of 5.692 cents per kilowatt-hour.

Gas: A contract to purchase blocks of natural gas on a periodic basis to achieve low cost.

Based on 2006 consumption the annual costs for electricity and gas respectively for the year ending June 30, 2007 is estimated at $907,446 and $658,436 (2006 – $949,167 and $613,679).

Note 22 Deferred Compensation Plan

Effective June 30, 2004, the College implemented the Red Deer College Supplementary Employees Retirement Plan for certain specified employees of the College. The plan is a non-registered unfunded pension plan that supplements the benefits received under the registered Local Authorities Pension Plan in Alberta.

The accrued benefit obligation of June 30, 2006 is $324,700 (2005 – $296,000), included in Accounts payable and accrued liabilities in the Consolidated Statement of Financial Position, reflects an amortization period for the transition of 1 year. The benefit was calculated using the projected accrued benefit cost method with pro-ration of service. The actuarial assumptions used in calculating this benefit are as follows:

Note 22 Deferred Compensation Plan (continued):

Expected average remaining service life	7 years
Assumed rate of return on assets	5.5%
Assumed discount rate on liabilities	5.5%
Weighted average expected increase in salaries	4%
Estimated inflation used	2.5%
Retirement age	60 - 62 years

Yearly Maximum Pensionable Earnings of $42,100 for 2006 ($41,100 - 2005) is estimated to increase by 3.5% per year.

The expected employer contribution amount for 2007 is $61,500 (2006 - $42,100).

The plan is a defined benefit plan. Yearly benefits will be calculated as 1.4% of the participant's final average earnings up to the average yearly maximum pensionable earnings, plus 2.0% of the participant's final average earnings in excess of the average yearly maximum pensionable earnings adjusted for early retirement and pensionable service time.

The Plan was approved by the Minister of Advanced Education on May 12, 2005.

Note 23 Budget

The budget was approved by the Board of Governors on June 23, 2005 and has not been audited.

Note 24 Comparative Figures

Certain 2005 figures have been reclassified to conform to the 2006 presentation.

During the year it was determined that $1,020,000 was classified as unearned revenue when it should have been recorded as a deferred contribution. The correction has no effect on the consolidated statement of revenue and expense or the consolidated statement of changes in net assets and the prior period numbers have been restated to reflect the proper classification.

Note 25 Approval of Financial Statements

These consolidated financial statements have been approved by the Board of Governors.

The Northern Alberta Institute of Technology

Consolidated Financial Statements

June 30, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations and Changes in Net Assets

Consolidated Statement of Cash Flow

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of The Northern Alberta Institute of Technology

I have audited the consolidated statement of financial position of The Northern Alberta Institute of Technology (the Institute) as at June 30, 2006 and the consolidated statements of operations and changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the Institute's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Institute as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 14, 2006

The Northern Alberta Institute of Technology

Consolidated Statement of Financial Position

As at June 30, 2006
(in thousands)

	2006	2005
ASSETS		
Current:		
Cash and short-term investments (Note 3)	$ 19,835	$ 1,590
Accounts receivable (Note 4)	7,489	6,239
Contributions and pledges receivable (Note 5)	2,913	1,307
Inventories (Note 6)	3,928	4,111
Prepaid expenses	1,117	1,158
	35,282	14,405
Contributions and pledges receivable (Note 5)	6,496	2,862
Long-term investments (Note 3)	68,455	62,155
Capital assets (Note 7)	221,933	192,626
	$ 332,166	$ 272,048
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 27,358	$ 16,867
Accrued vacation pay	12,808	11,718
Unearned revenue	9,339	8,157
Current portion of long-term leases (Note 8)	547	548
Deferred contributions (Note 9)	22,938	6,191
	72,990	43,481
Deferred capital contributions (Note 10)	5,734	2,797
Long-term leases (Note 8)	670	1,147
Unamortized deferred capital contributions (Note 11)	125,135	106,732
	204,529	154,157
Net Assets:		
Unrestricted net assets	11,404	13,885
Internally restricted (Note 12)	8,111	7,794
Invested in capital assets (Note 7)	95,581	84,199
Endowments (Note 13)	12,541	12,013
	127,637	117,891
	$ 332,166	$ 272,048

The accompanying notes are part of these consolidated financial statements.

The Northern Alberta Institute of Technology

Consolidated Statement of Operations and Changes in Net Assets

For the Year Ended June 30, 2006
(in thousands)

	2006					2005
	Unrestricted	Internally Restricted	Invested in Capital Assets	Endowment	Total	Total
Revenue						
Grants	$ 126,981	$ -	$ -	$ -	$ 126,981	$ 112,201
Earned revenue programs	32,554	-	-	-	32,554	31,182
Tuition and other fees	32,227	-	-	-	32,227	31,102
Ancillary services (Note 14)	17,775	-	-	-	17,775	15,986
Amortization of deferred capital contributions	8,544	-	-	-	8,544	7,879
Sales, rentals, services and other	5,440	-	-	-	5,440	5,083
Investment earnings (Note 15)	4,732	-	-	-	4,732	3,598
Fundraising and donations	3,930	-	-	-	3,930	2,711
	232,183	-	-	-	232,183	209,742
Expense (Note 16)						
Salary and benefits (Note 17)	146,521	-	-	-	146,521	134,681
Supplies and services (Note 18)	49,636	-	-	-	49,636	44,592
Amortization of capital assets	15,811	-	-	-	15,811	14,457
Utilities	8,635	-	-	-	8,635	7,564
Facilities rentals	561	-	-	-	561	482
Scholarships, bursaries and prizes	1,569	-	-	-	1,569	1,165
Loss on disposal of capital assets	232	-	-	-	232	429
	222,965	-	-	-	222,965	203,370
Excess of revenue over expense	9,218	-	-	-	9,218	6,372
Release of internally restricted net assets for current operating activities	988	(988)	-	-	-	-
Net endowment contributions (Note 13)	-	-	-	528	528	665
Amortization of assets acquired with unrestricted net assets	7,267	-	(7,267)	-	-	-
Book value of capital assets disposed	361	-	(361)	-	-	-
Purchases of capital assets	(15,400)	(3,132)	18,532	-	-	-
Repayment of long-term lease	(478)	-	478	-	-	-
Board allocation to internally restricted net assets	(4,437)	4,437	-	-	-	-
Change in net asset balance	(2,481)	317	11,382	528	9,746	7,037
Net asset balance, beginning of year	13,885	7,794	84,199	12,013	117,891	110,854
Net asset balance, end of year	$ 11,404	$ 8,111	$ 95,581	$ 12,541	$ 127,637	$ 117,891

The Northern Alberta Institute of Technology

Consolidated Statement of Cash Flow

For the Year Ended June 30, 2006

(in thousands)

	2006	2005
Cash provided from (used in) operating activities:		
Excess of revenue over expense	$ 9,218	$ 6,372
Non-cash transactions:		
Amortization of capital assets	15,811	14,457
Loss on disposal of capital assets	232	429
Amortization of deferred capital contributions	(8,544)	(7,879)
Cash generated from operations	16,717	13,379
Changes in non-cash working capital accounts (Note 19)	26,878	1,215
	43,595	14,594
Cash used in investing activities:		
Acquisition of capital assets:		
Externally funded	(26,947)	(7,270)
Internally funded	(18,532)	(9,777)
Capital lease financed	-	(449)
	(45,479)	(17,496)
Proceeds from disposal of capital assets	129	187
Purchase of long-term investments - net	(6,300)	(15,964)
	(51,650)	(33,273)
Cash provided from financing activities:		
Deferred capital contributions	26,167	5,888
Long-term leases - net	(478)	(50)
Endowment contributions	611	721
	26,300	6,559
Net increase (decrease) in cash and short-term investments	18,245	(12,120)
Cash and short-term investments, beginning of year	1,590	13,710
Cash and short-term investments, end of year	$ 19,835	$ 1,590

Note 1 Authority and Purpose

The Northern Alberta Institute of Technology (the "Institute") is a public, board governed technical institute operated in accordance with the Post-secondary Learning Act, Chapter P-19.5, Statutes of Alberta, 2003. The Institute is exempt from payment of income tax under Section 149 of the Income Tax Act.

The Institute serves primarily central and northwestern Alberta, offering a variety of career programming in credit, noncredit and apprenticeship formats with opportunities for full and part-time delivery. Certificate, diploma and applied degree programs are offered in a range of career fields including business, mechanical and manufacturing, building sciences, health technologies, media and information technologies, natural resources and environment, hospitality and tourism, electrical, electronics and agricultural programming related to land utilization and the care and training of animals.

Note 2 Significant Accounting Policies and Reporting Practices

a) Consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Institute, The Northern Alberta Institute of Technology Foundation and the Fairview College Foundation.

In preparing the Institute's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Management believes its estimates to be appropriate; however, actual results could differ from these estimates.

b) Revenue Recognition

Unrestricted contributions are recognized as revenue when received or when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income, which includes interest, dividends and realized gains and losses, is recognized as revenue is earned. Pledges that can be reasonably estimated and where ultimate collection is reasonably assured are recorded as an asset, with the corresponding amount being recorded as fundraising and donations revenue, deferred contributions, deferred capital contributions or endowment as applicable.

Revenues received for the provision of goods or services are recognized in the period in which the goods are provided or the services rendered or substantially rendered. Tuition fees are recognized as revenue when the related instruction is delivered.

Restricted contributions are recognized as revenue in accordance with the deferral method, as summarized below:

- Contributions, including investment income, restricted for purposes other than endowment or the acquisition of capital assets are deferred and recognized as revenue in the year in which the conditions of the contribution are met. Contributions restricted to the acquisition of capital assets having limited life are initially recorded as deferred capital contributions in the period in which they are received or receivable, and when expended are transferred to unamortized deferred capital contributions and amortized to revenue over the useful lives of the related assets.

- Endowment contributions are recognized as direct increases in net assets.
- Contributions restricted to the acquisition of non-consumable capital assets are initially recorded as deferred capital contributions in the period in which they are received and, when expended, are recognized as direct increases in net assets.

c) Inventories

Inventories of merchandise for resale are valued at the lower of average cost and net realizable value.

d) Financial Instruments

The fair values of the Institute's accounts receivable, accounts payable and accrued liabilities, and accrued vacation pay approximate their carrying values due to the relatively short periods to maturity of the instruments.

e) Capital Assets

Capital assets are amortized on a straight-line basis over the following average useful lives:

Buildings and renovations	40 years
Site improvements	10 years
Leasehold improvements	Lease term
Furnishings, equipment and vehicles	2 to 10 years
Software	2 to 5 years
Library holdings	10 years

f) Employee Future benefits

The Institute and its eligible employees participate in the Local Authorities and Management Employees Pension Plans. These plans are multi-employer defined benefit pension plans, administered by the Alberta Pensions Administration Corporation, and provide pensions for the Institute's employees based on years of service and earnings.

Pension costs included in these consolidated financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the respective pension plan. The Institute's portion of the pension plans' deficit or surplus is not recorded by the Institute.

g) Asset Retirement Obligations

Asset retirement obligations are recorded when incurred. The associated retirement costs are capitalized as part of the carrying amount of the assets, and amortized over the useful life of the related asset.

Note 3 Cash, Short-term Investments and Long-term Investments

Cash, short-term investments and long-term investments are recorded at cost or amortized cost, less provision for decline in market value that is other than temporary. Market value is based upon the quoted market price of the securities. Gains or losses are recognized as investment income in the year of sale.

The Institute's investment policy is dedicated to optimizing the return on investment while ensuring that the assets of the Institute are at all times prudently invested while minimizing the potential for loss of capital.

Specific guidelines have been established with respect to asset mix, diversification, security, and performance measurement as well as quality, liquidity and term constraints.

a) Cash and Short-term Investments

In addition to cash on hand and on deposit, cash and short-term investments, consisting of Banker's Acceptances and Government of Canada Treasury Bills, all mature within one year and bear interest at a weighted average of 4.33% (2005: 2.54%). The effective yield of 4.33% (2005: 2.54%) represents the rate which discounts future cash receipts to the carrying value at June 30, 2006. Carrying value of these securities approximates market value.

The Institute manages an additional $7,537 (2005: $2,245) of short-term investments as Funds Held on Behalf of Others (Note 22), which are not included in the consolidated financial statements.

The Institute's investment guidelines restrict holdings of short-term investments to high quality, liquid securities where the rate of return performance standard is the return on 91-day Canadian Treasury Bills.

b) Long-term Investments

	2006		2005	
	Recorded Value	Market Value	Recorded Value	Market Value
Government of Canada bonds	$ 20,363	$ 20,088	$ 18,500	$ 19,050
Government of Canada coupon bonds	1,440	1,374	-	-
Provincial bonds	6,737	6,839	7,408	7,835
Provincial coupon bonds	316	310	308	306
Corporate bonds	10,889	10,796	10,051	10,424
Equities	28,601	33,117	25,759	30,229
Other	109	125	129	139
	$ 68,455	$ 72,649	$ 62,155	$ 67,983

Equities are comprised of:				
Canadian equities	$ 14,674	$ 17,849	$ 13,291	$ 16,716
Foreign equities	13,927	15,268	12,468	13,513
	$ 28,601	$ 33,117	$ 25,759	$ 30,229

	2006	2005
Government of Canada Bonds		
Weighted average years to maturity	5.1 years	5.5 years
Weighted average interest rate	4.29%	4.45%
Effective yield based on purchase price	3.74%	3.79%
Government of Canada Coupon Bonds		
Weighted average years to maturity	9.4 years	-
Weighted average interest rate	4.12%	-
Effective yield based on purchase price	4.12%	-
Provincial Bonds		
Weighted average years to maturity	9.1 years	8.2 years
Weighted average interest rate	4.78%	4.38%
Effective yield based on purchase price	3.99%	3.81%
Provincial Coupon Bonds		
Weighted average years to maturity	1.2 years	2.2 years
Weighted average interest rate	3.12%	3.82%
Effective yield based on purchase price	3.12%	3.82%
Corporate Bonds		
Weighted average years to maturity	4.2 years	5.7 years
Weighted average interest rate	5.16%	5.20%
Effective yield based on purchase price	4.31%	4.40%

Term to maturity of bonds is based upon the contractual maturity of the security. Effective yields represent the rate that discounts future cash receipts to the purchase price.

In accordance with the Institute's investment guidelines, risk on long-term investment is managed by:

- Requiring that all bonds be rated "A" or better by the Dominion Bond Rating Service or an equivalent recognized rating agency;
- Holding a diversified selection of equities with a minimum of twenty securities and limiting exposure in any one security or issuer to 10% of the equity portfolio.
- Limiting investment in foreign equities to a maximum of 50% of the market value of the total equity portfolio with no funds invested in emerging markets.

Note 4 Accounts Receivable

	2006	2005
Canadian accounts receivable	$ 6,494	$ 5,148
Foreign accounts receivable	544	773
Accrued interest on investment	451	318
	$ 7,489	$ 6,239

Note 5 Contributions and Pledges Receivable

	2006	2005
Centre for Piping Systems Technology	$ 2,650	$ -
General student awards	2,512	430
NAIT Centre for Apprenticeship Technologies	2,395	150
Centre for Culinary Arts	678	1,092
Operating Grants	333	184
Aboriginal Centre and Mobile Units	304	606
NAIT HP Centre	210	729
Student Awards Endowments	101	167
Other projects	77	344
Centre for Chemical Studies	67	231
Hands-on Learning Endowments	67	78
Program designated Endowments	15	20
Fuel Cell Applied Research project	-	128
Centre for Welding Technology	-	10
	$ 9,409	$ 4,169
Presented as:		
Current contributions and pledges	$ 2,913	$ 1,307
Non-current contributions and pledges	6,496	2,862
	$ 9,409	$ 4,169

In addition to the above contributions and pledges receivable, the Institute has received commitments from a number of donors for $7,647 cash contributions and $3,000 gift in kind that will be received over the next several years. These additional contributions and pledges will be recorded when collection is reasonably assured.

Note 6 Inventories

	2006	2005
Bookstore	$ 2,711	$ 2,213
Resources and Environmental Management	470	473
General stores	405	379
Farm operations	267	214
Maintenance	40	226
Other	35	117
Applied Building Science	-	196
Mechanical and Manufacturing Technology	-	153
Electrical and Electronics Technology	-	140
	$ 3,928	$ 4,111

Note 7 Capital Assets

a) Summary of Cost and Net Book Value

	2006			2005
	Cost and Appraised Value	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 34,264	$ -	$ 34,264	$ 34,264
Buildings, leasehold and site improvements	237,357	120,285	117,072	123,533
Furnishings, equipment and vehicles	98,341	69,565	28,776	27,272
Software	8,146	6,717	1,429	1,451
Leased equipment	2,369	895	1,474	1,812
Library	3,569	2,229	1,340	1,257
Intangibles	4	-	4	5
Projects in progress	37,574	-	37,574	3,032
	$ 421,624	$ 199,691	$ 221,933	$ 192,626

b) Net Book Value of Capital Assets are comprised as follows:

	2006	2005
Externally funded (unamortized deferred capital contributions - Note 11)	$ 125,135	$ 106,732
Internally funded (invested in capital assets)	95,581	84,199
Long-term leases (Note 8)	1,217	1,695
	$ 221,933	$ 192,626

c) Capital Acquisitions

Capital acquisitions during the year included certain donations in kind with a fair value of $2,239 (2005: $1,631).

d) Purchase Option

As part of the transfer of certain capital assets by the Province in 1978, the Province retained an option to repurchase all or any part of the transferred land and buildings for the nominal amount of $1 per purchase. The recorded net book value of the capital assets transferred is $1,369 (2005: $2,015).

Note 8 Long-term Leases

The following is a schedule of future minimum payments as of June 30, 2006 under capital leases:

2007	$	547
2008		471
2009		284
2010		92
Total minimum lease payments		1,394
Less: long-term lease premium		(177)
	$	1,217
Balance comprised of:		
Current portion of long-term leases	$	547
Long-term leases		670
	$	1,217

Note 9 Deferred Contributions

Deferred contributions represent unspent funds externally restricted for non-capital purposes.

	2006	2005
Contributions:		
Grants - Alberta Government	$ 27,679	$ 12,758
Grants - Other Government	326	-
Fundraising and donations	5,051	2,555
Earned revenue programs	384	481
Investment earnings	683	464
	34,123	16,258
Transferred to:		
Grants - Alberta Government	(13,993)	(12,921)
Grants - Other Government	(326)	-
Fundraising and donations	(2,149)	(2,424)
Earned revenue programs	(323)	(734)
Investment earnings (Note 15)	(580)	(506)
Endowments (Note 13)	(5)	-
	(17,376)	(16,585)
Change in Deferred contributions	16,747	(327)
Deferred contributions, beginning of year	6,191	6,518
Deferred contributions, end of year	$ 22,938	$ 6,191
The balance consists of funds restricted for:		
Access programs	$ 14,321	$ 1,447
Scholarships and bursaries	4,925	2,171
Infrastructure Maintenance Program	1,587	870
Other	802	551
Aboriginal Programs	513	98
Alberta Innovation and Science	254	-
Alberta Health & Wellness Initiatives	153	458
Supernet	152	456
Student Athletics	126	65
Project sponsorships	82	52
Fuel Cell Research and Development	23	23
	$ 22,938	$ 6,191

Note 10 Deferred Capital Contributions

Deferred capital contributions represent unspent funds externally restricted for capital purposes.

	2006	2005
Contributions:		
Grants - Alberta Government	$ 19,810	$ 1,260
Grants - Centre for Manufacturing Solutions	2,504	486
Grants - Fuel Cell Applied Research Project	-	127
Fundraising and donations	7,570	2,957
	29,884	4,830
Transferred to unamortized deferred capital contributions (Note 11)	(26,947)	(7,924)
Change in Deferred capital contributions	2,937	(3,094)
Deferred capital contributions beginning of year	2,797	5,891
Deferred capital contributions, end of year	$ 5,734	$ 2,797
The balance consists of funds restricted for:		
Centre for Piping Systems Technology	$ 2,490	$ -
Metrology Lab and Centre for Manufacturing Solutions	1,795	937
Centre for Power Engineering Technology	483	-
Other capital	373	460
Apprenticeship program equipment	343	282
Alberta Health & Wellness Initiatives	171	97
Fairview ice rink roof	55	204
Fuel Cell Applied Research Project	24	316
NAIT Centre for Apprenticeship Technologies	-	429
Heavy Equipment Technology	-	43
Mobile Education Training Units	-	29
	$ 5,734	$ 2,797

Note 11 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the external funding of capital assets which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contributions are as follows:

	2006	2005
Balance, beginning of year	$ 106,732	$ 106,687
Add:		
Amount transferred from deferred capital contributions (Note 10)	26,947	7,924
Less:		
Amortization of deferred capital contributions	(8,544)	(7,879)
Balance, end of year	$ 125,135	$ 106,732

Note 12 Internally Restricted Net Assets

Internally restricted net assets represent those commitments for which the Board has appropriated funds from the unrestricted net assets. These appropriations do not have interest earnings allocated to them. Internally restricted net assets are summarized as follows:

	Balance at beginning of year	Appropriations from unrestricted net assets	Disbursements during the year	Balance at end of year
Appropriation for capital activities:				
Capital renewal	$ 2,427	$ 239	$ 231	$ 2,435
NAIT Centre for Apprenticeship Technologies	2,542	1,705	1,880	2,367
Information Systems renewal	1,593	1,400	917	2,076
Residence renewal	133	-	-	133
Revenue sharing	-	104	104	-
	6,695	3,448	3,132	7,011
Appropriation for operating activities:				
Innovation funding	431	133	145	419
Revenue sharing	456	646	684	418
Coursepack royalties	172	112	54	230
Scholarship and program specific	19	-	6	13
Enrolment and other initiatives	13	7	8	12
Information Systems renewal	8	-	-	8
NAIT Centre for Apprenticeship Technologies	-	91	91	-
	1,099	989	988	1,100
	$ 7,794	$ 4,437	$ 4,120	$ 8,111

Note 13 Endowments

Endowments consist of restricted donations to the Institute, the principal of which is required to be maintained intact in perpetuity as well as any internal allocations by the Board. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board.

	2006	2005
Fundraising and donations	$ 523	$ 665
Transferred from deferred contributions (Note 9)	5	-
Change in Endowments	528	665
Endowments, beginning of year	12,013	11,348
Endowments, end of year	$ 12,541	$ 12,013
The balance consists of:		
Scholarships and bursaries	$ 8,855	$ 8,340
General	3,286	3,282
Staff Development	400	391
	$ 12,541	$ 12,013

Note 14 Ancillary Services

	2006			2005
	Revenue	Expense	Net	Net
Bookstore	$ 10,485	$ 9,928	$ 557	$ 98
Food Services	4,677	4,227	450	349
Parking	1,733	972	761	476
Residence	710	871	(161)	41
Recreation and facilities	170	237	(67)	(61)
	$ 17,775	$ 16,235	$ 1,540	$ 903

Note 15 Investment Earnings

	2006	2005
Investment earnings from unrestricted sources	$ 4,152	$ 3,092
Investment earnings from restricted sources (Note 9)	580	506
	$ 4,732	$ 3,598

Note 16 Segmented Financial Information

The following provides information on the Institute's operating segments, leading to the calculation of the tuition revenue and net program cost per full load equivalent student for the Certificate, Diploma and Applied Degree Programs, and the Apprenticeship Training Programs:

	Note	Certificate, Diploma and Applied Degree Programs	Apprenticeship Training Programs	Other Programs and Services	Total
a) **Full-load equivalent students (FLE)**	(i)				
2005/06		8,831	2,786		11,617
2004/05 (restated - see note iv)		8,844	2,493		11,337
b) **Tuition and earned revenue**	(ii)				
2005/06					
Tuition and other fees		$ 22,862	$ 6,749	$ 2,616	$ 32,227
Earned revenue programs		6,656	35	25,863	32,554
		$ 29,518	$ 6,784	$ 28,479	$ 64,781
2004/05 (restated - see note iv)					
Tuition and other fees		$ 22,499	$ 6,074	$ 2,529	$ 31,102
Earned revenue programs		7,331	-	23,851	31,182
		$ 29,830	$ 6,074	$ 26,380	$ 62,284
c) **Net program cost**	(iii)				
2005/06					
Expenses per financial statements		$ 117,267	$ 51,209	$ 54,489	$ 222,965
Less cost recoveries		(710)	(179)	-	(889)
		$ 116,557	$ 51,030	$ 54,489	$ 222,076
2004/05 (restated - see note iv)					
Expenses per financial statements		$ 110,535	$ 43,402	$ 49,433	$ 203,370
Less cost recoveries		(595)	(185)	-	(780)
		$ 109,940	$ 43,217	$ 49,433	$ 202,590
d) **Tuition revenue per FLE (in dollars)**					
2005/06		$ 3,343	$ 2,435		
2004/05 (restated - see note iv)		$ 3,373	$ 2,436		
e) **Net program cost per FLE (in dollars)**					
2005/06		$ 13,199	$ 18,317		
2004/05 (restated - see note iv)		$ 12,431	$ 17,335		

Note (i) – Full-Load Equivalent Students (FLE)
As defined by Alberta Advanced Education, one full-load equivalent student reflects one student completing the full load for one year of study in a program, or several students combining to complete the equivalent of a normal full load.

Note (ii) - Tuition Revenue
Tuition Revenue for the Certificate, Diploma and Applied Degree segment consist of all tuition fees for credit FLE's, and include tuition fees from credit continuing education courses that are recorded in the Earned Revenue Programs line on the Consolidated Statement of Operations.

Tuition Revenue for the Apprenticeship Training Program segment consists of all fees charged to apprenticeship students in accordance with the rates approved by Alberta Advanced Education.

Revenue for the Other Programs and Services segment consist of fees not subject to the Alberta Advanced Education Tuition Fee Policy as well as all fees charged for non-credit continuing education courses, international education and athletics programs.

Note (iii) - Net Program Cost
Operating expenses are allocated to the operating segments based on the Provincial Program Costing Methodology as recommended by Alberta Advanced Education.

Net program cost for the Other Program and Services segment consists of all expenses not attributed to the Certificate, Diploma and Applied Degree and the Apprenticeship Training Program segment. It includes non-credit continuing education courses, international education projects, athletic programs, ancillary operations (Bookstore, Food Services and Parking) and expenses relating to fundraising events of the NAIT Development Office.

Note (iv) – Restatement of 2004/05 FLE, tuition revenue and net program cost
Certain 2004/05 figures were restated to be consistent with current year's presentation and the final approved FLE and net program cost.

Note 17 Salary and Benefits

(a) Pension Costs (Employee Benefits)

The pension expense recorded in Salary and benefits is equivalent to the Institutes' annual contributions payable of $9,640 for the year ended June 30, 2006 (2005 $7,910).

(b) Salary Disclosure

	2006				2005
	Base Salary	Other Cash Benefits	Other Non-cash Benefits	Total	Total
Chairman of The Board	$ -	$ -	$ -	$ -	$ -
Board Members	-	-	4	4	7
President	235	100	20	355	299
Vice Presidents					
Finance and Administration	167	39	20	226	186
Academic and Student Services	141	20	21	182	160
External Relations	131	26	20	177	131
Dean, Business Development	125	10	19	154	142

The Chair and members of the Board of Governors receive no remuneration for the services they provide as members of the Board of Governors, with the exception of the two student representatives who receive a benefit equal to their tuition fee.

Base salary includes pensionable base pay. Other cash benefits include bonuses and honoraria. Other non-cash benefits include the Institute's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long-term disability plans and professional memberships required for employment. The President has been provided with an automobile by the Institute for which no amount is included in the other non-cash benefits.

The President received $19 and the Vice President, Finance and Administration received $6 for vacation payouts. This amount is included in other cash benefits above.

Two individuals held the position of Vice President, Academic and Student Services in the current year.

Note 18 Supplies and Services

Supplies and services are summarized by the following major groupings:

	2006	2005
Cost of goods sold	$ 13,117	$ 10,887
Purchased labour	8,684	9,094
Repairs, maintenance and renovations	7,962	7,299
Classroom, lab and office supplies	6,147	6,558
Purchased services	5,509	3,405
Travel, staff development	3,481	3,023
Administrative expenses	3,132	3,132
Meetings, hospitality	1,056	857
Fundraising and donations	548	337
	$ 49,636	$ 44,592

Note 19 Changes in Non-Cash Working Capital Accounts

	2006	2005
Accounts receivable	$ (1,250)	$ (647)
Contributions and pledges receivable	(1,606)	(84)
Inventories	183	(622)
Prepaid expenses	41	(354)
Accounts payable and accrued liabilities	10,491	1,726
Accrued vacation pay	1,090	991
Unearned revenue	1,182	532
Deferred contributions	16,747	(327)
	$ 26,878	$ 1,215

Note 20 Contractual Obligations

(a) The future minimum payments as of June 30, 2006 under operating leases:

2007	$	440
2008	$	97
2009	$	55
2010	$	8

(b) Total annual commitment for operating costs of the Fairview and District Aquatic Centre:

2007	$	25
2008	$	25
2009	$	25
2010	$	25
2011	$	25
Thereafter	$	25

(c) As at June 30, 2006 the Institute has outstanding contractual commitments for capital projects as follows:

NAIT Centre for Apprenticeship Technologies:		
Waiward Centre for Steel Technologies	$	420
NAIT Spartan Centre for Instrumentation Technology and the Centre for Millwright Technology	$	9,234
Centre for Power Engineering	$	1,995
Centre for Building and Environmental Systems Technology	$	665
Centre for Graphic Sign Arts and Painting and Decorating	$	471

Note 21 Contingent Liabilities

The Institute is a defendant in a legal proceeding. The cost of settling this claim, if any, will be charged to operations upon settlement, which in Management's opinion will not have a material effect on the financial position of the Institute.

The Institute has identified asset retirement obligations for which the fair value cannot be reasonably estimated due to the indeterminate timing and scope of the asset retirement. The asset retirement obligation for these assets will be recorded in the period in which there is sufficient information to estimate fair value.

Note 22 Funds Held on Behalf of Others

The Institute holds the following funds on behalf of others over which the Board has no power of appropriation. Accordingly, these funds are not included in the consolidated financial statements.

	2006	2005
Alberta Association of Colleges and Technical Institutes	$ 4,970	$ 129
Government of Alberta Individual Learning Modules	2,101	1,747
NAIT Student's Association	343	246
Government of Alberta Diagnostic Imaging Projects	123	123
	$ 7,537	$ 2,245

Note 23 Related Party Transactions

The Institute is a Provincial Corporation as all the members of the Board of Governors are appointed by statute (the Post-secondary Learning Act) or by combination of orders by the Lieutenant Governor-in-Council and the Minister of Advanced Education.

The Institute received the following grants directly from the Province of Alberta or indirectly through related entities:

	2006			
	Deferred contributions	Deferred capital contributions	Grant revenue	Total
Alberta Advanced Education				
Regular Operating	$ -	$ -	$ 111,913	$ 111,913
Performance funding	-	-	749	749
Access Funding	24,511	47	-	24,558
Conditional	760	261	-	1,021
Alberta Infrastructure				
Infrastructure Maintenance	1,967	502	-	2,469
NAIT Centre for Apprenticeship Technologies	-	14,200	-	14,200
Centre for Power Engineering	15	1,485	-	1,500
Relocation of Welder program	-	2,200	-	2,200
Alberta Innovation and Science	287	713	-	1,000
Alberta Health and Wellness	79	317	-	396
Northern Lakes College	58	43		101
Alberta North	-	42		42
Northern Development - Aboriginal	2	-	-	2
	27,679	19,810	112,662	160,151
Deferred contributions recognized as grant revenue	(13,993)	-	13,993	-
	$ 13,686	$ 19,810	$ 126,655	$ 160,151

	2005			
	Deferred contributions	Deferred capital contributions	Grant revenue	Total
Alberta Advanced Education				
Regular Operating	$ -	$ -	$ 94,694	$ 94,694
Operating and Maintenance	-	-	4,012	4,012
Performance funding	-	-	574	574
Access Funding	11,237	152	-	11,389
Conditional	840	112	-	952
Alberta Infrastructure				
Infrastructure Maintenance	71	-	-	71
Alberta Education	27	-	-	27
Alberta Innovation and Science	-	500	-	500
Alberta Health and Wellness	580	292	-	872
Northern Development - Aboriginal	3	-	-	3
Alberta Lottery Fund (CFEP)	-	204	-	204
	12,758	1,260	99,280	113,298
Deferred contributions recognized as grant revenue	(12,921)	-	12,921	-
	$ (163)	$ 1,260	$ 112,201	$ 113,298

In 2006, the Institute provided courses to provincial government departments and participated in the development, sale and offering of certain courses with other public colleges and the Southern Alberta Institute of Technology. The revenues and expenses incurred for these have been included in the consolidated statement of operations but have not been separately quantified. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair market value.

Note 24 Budget

The Institute's Board of Governors approved the following consolidated operating budget at the May 2, 2005 Board meeting. At that meeting, the Board also approved capital expenditures and appropriations of $7,481.

Revenue:	
Grants	$ 120,993
Tuition and other fees	31,661
Earned revenue programs	32,590
Ancillary services	16,584
Amortization of deferred capital contributions	7,555
Sales, rentals and services	3,880
Investment earnings	2,724
Fundraising and donations	2,008
	217,995
Expense:	
Salary and benefits	152,439
Supplies and services	41,089
Amortization of capital assets	15,036
Utilities	7,685
Facilities rentals	756
Scholarships and bursaries	890
Loss on disposal of capital assets	100
	217,995
Excess of revenue over expense	-
Adjust for non-cash items	
Amortization of capital assets	15,036
Amortization of deferred capital contributions	(7,555)
Cash available for capital budget and appropriation	7,481
Book value of disposed capital assets	722
Release of Internally Restricted Net Assets for current operating activities	700
Contribution to annual capital budget	(5,675)
Contribution to campus renewal or equipment	(1,989)
Repayment of long-term lease	(489)
Appropriation to Revenue Sharing Plan	(750)
Balanced budget	$ -

Note 25 Approval of Consolidated Financial Statements

These consolidated financial statements were approved by the Board of Governors.

SOUTHERN ALBERTA INSTITUTE
OF TECHNOLOGY
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Consolidated Statement of Supplementary Performance Information

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the Southern Alberta Institute of Technology

I have audited the consolidated statement of financial position of the Southern Alberta Institute of Technology as at June 30, 2006 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. I have also audited the consolidated statement of supplementary performance information for the year ended June 30, 2006. These consolidated financial statements are the responsibility of the Institute's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Institute as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

In my opinion, the consolidated statement of supplementary performance information presents fairly, in all material respects, the Institute's performance in accordance with the disclosed basis of measurement and presentation as described in the notes to the statements.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 1, 2006

Management's Responsibility for Financial Statements

SAIT's management is responsible for the preparation, accuracy, objectivity and integrity of the information contained in the financial statements. Systems of internal control are designed and maintained by management to produce reliable information to meet financial reporting requirements, to generate supplementary performance information and to provide reasonable assurance that assets are safeguarded. The financial statements which follow have been prepared in accordance with generally accepted accounting principles and the supplementary performance information has been prepared in accordance with the disclosed basis of measurement and presentation.

The Audit Committee of the Board of Governors meets periodically with SAIT's management and SAIT's auditor to review matters relating to internal accounting control, the quality of financial reporting and the nature, extent and results of the external audit. The Auditor General of the Province of Alberta conducts an independent examination of the Institute's financial and performance information records in accordance with generally accepted auditing standards.

Lewis

Irene Lewis
President and CEO

Keith Pedersen, CA
Vice President Finance and CFO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30 (in thousands)	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$ 104,668	$ 46,189
Accounts receivable (Note 4)	9,074	6,510
Inventories (Note 5)	1,945	2,055
Prepaid expenses	410	423
	116,097	55,177
Investments (Note 3)	24,324	11,777
Capital assets (Note 6)	212,696	206,942
	$ 353,117	$ 273,896
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	$ 22,337	$ 21,807
Unearned revenue (Note 8)	9,281	7,894
Deferred contributions (Note 9)	20,376	9,461
Current portion of employee benefit liabilities (Note 11)	8,930	8,792
Current portion of long-term liabilities (Note 13)	1,542	685
	62,466	48,639
Deferred capital contributions (Note 10)	2,486	2,120
Employee benefit liabilities (Note 11)	868	545
Long-term liabilities (Note 13)	70,427	19,279
Unamortized deferred capital contributions (Note 14)	116,610	120,280
	252,857	190,863
Net assets:		
Unrestricted net assets	16,360	6,678
Invested in capital assets (Note 15)	72,696	66,698
	89,056	73,376
Endowments (Note 16)	11,204	9,657
	100,260	83,033
	$ 353,117	$ 273,896

Contractual Obligations and Contingencies (Note 17)

Approved by the Board of Governors:

Douglas H. Mitchell, C.M., Q.C., Chair of the Board

Clare Rhyase

Clare Rhyasen, C.A., Chair of the Audit Committee

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

	2006		2005
For the year ended June 30 (in thousands)	**Budget**	**Actual**	Actual
	(Note 18)		
Revenue:			
Grants	**$ 100,725**	**$ 105,439**	$ 92,892
Earned revenue programs	**41,532**	**41,082**	38,406
Tuition and related fees	**31,563**	**31,223**	31,390
Commercial services	**21,726**	**18,644**	18,135
Sales, rentals and services	**3,221**	**4,038**	3,691
Investment income (Note 3)	**750**	**2,938**	1,562
Donations, contributions and income on restricted contributions (Note 19)	**7,575**	**3,148**	6,284
	207,092	**206,512**	192,360
Earned capital contributions (Note 14)	**7,756**	**8,593**	9,769
	214,848	**215,105**	202,129
Expense:			
Salaries, wages and benefits (Note 20)	**125,940**	**120,115**	110,042
Supplies and services (Note 19)	**42,130**	**38,876**	38,970
Repairs and maintenance	**10,402**	**11,474**	10,873
Utilities	**8,550**	**8,900**	8,794
Interest expense	**1,262**	**1,367**	1,321
Scholarships and projects	**4,311**	**2,994**	3,004
Amortization of capital assets	**14,887**	**14,671**	17,565
Loss on disposal of capital assets	**1,622**	**1,028**	1,031
	209,104	**199,425**	191,600
Excess of revenue over expense	**$ 5,744**	**$ 15,680**	$ 10,529

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended June 30 (in thousands)			2006			2005
	Unrestricted	**Investment in Capital Assets**	**Subtotal**	**Endowments**	**Total**	Total
Excess of revenue over expense	$ 15,680	$ -	$ 15,680	$ -	$ 15,680	$ 10,529
Transfers for:						
Acquisition of capital assets	(12,592)	12,592	-	-	-	-
Repayment of long-term liabilities related to capital assets	(1,122)	1,122	-	-	-	-
Amortization of capital assets	6,078	(6,078)	-	-	-	-
Disposition of capital assets	1,638	(1,638)	-	-	-	-
Endowment contributions	-	-	-	1,547	1,547	436
Increase in net assets	9,682	5,998	15,680	1,547	17,227	10,965
Net assets, beginning of year	6,678	66,698	73,376	9,657	83,033	72,068
Net assets, end of year	$ 16,360	$ 72,696	$ 89,056	$ 11,204	$ 100,260	$ 83,033

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30 (in thousands)	2006	2005
Operating Activities:		
Excess of revenue over expense	$ 15,680	$ 10,529
Non-cash transactions:		
Amortization of capital assets	14,671	17,565
Earned capital contributions (Note 14)	(8,593)	(9,769)
Loss on disposal of capital assets	1,028	1,031
Increase in employee benefits	323	65
	23,109	19,421
Changes in non-cash working capital (Note 21)	10,784	1,120
Cash generated from operating activities	33,893	20,541
Investing Activities:		
Acquisition of capital assets	(22,063)	(21,739)
Redemption of investments, net	(12,547)	1,534
Proceeds from disposal of capital assets	610	1,189
Cash used in investing activities	(34,000)	(19,016)
Financing Activities:		
Proceeds from long-term liabilities	53,127	520
Repayment of long-term liabilities	(1,122)	(629)
Endowment contributions	1,547	436
Contributed equipment (Note 14)	1,899	857
Construction payables	(255)	60
Capital contributions (Note 10)	3,390	6,464
Cash generated from financing activities	58,586	7,708
Increase in cash and cash equivalents	58,479	9,233
Cash and cash equivalents, beginning of year	46,189	36,956
Cash and cash equivalents, end of year	$ 104,668	$ 46,189

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SUPPLEMENTARY PERFORMANCE INFORMATION

	2006		2005
For the year ended June 30	**Budget**	**Actual**	(Restated)
Full-load equivalent students (Note 22)	**11,735**	**11,704**	11,593
Academic program cost per full-load equivalent student (Note 22)	**$ 15,497**	**$ 15,020**	$ 14,549
Students surveyed during the fiscal year who completed an Applied Degree, Diploma or Certificate program during the year ended June 30, 2005 (2004 for comparative figures) (Note 23):			
Annualized salary median for those with full-time employment	**$ 31,000**	**$ 36,000**	$ 33,000
Employment rate:			
Full-time	**73%**	**75%**	77%
Contract, part-time or temporary	**24%**	**22%**	21%
Overall	**97%**	**97%**	98%

The accompanying notes are part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 AUTHORITY

The Southern Alberta Institute of Technology operates under the authority of the Post-Secondary Learning Act, Chapter P-19.5, Statutes of Alberta 2003. The Institute provides educational programs to provide a skilled, productive work force for the economic development of Alberta and Canada. The Institute is exempt from payment of income tax and is also a registered charity under the Income Tax Act. The Institute was established as a board governed institution on April 1, 1982.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

(a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events and, as such, the preparation of these financial statements requires the use of estimates, which may vary from actual results. These financial statements include supplementary performance information in accordance with the following guidelines:

(i) Supplementary performance information should be understandable, relevant, reliable and comparable. Supplementary performance information should be limited to a few key performance measures which influence decisions.

(ii) Supplementary performance information should include measurable information on the Institute's outputs.

(iii) Supplementary performance information should support efforts to evaluate cost effectiveness. Information on the costs of the Institute's outputs should be linked with information on the results these outputs achieve.

(b) Consolidated Statements

The consolidated financial statements include the accounts of the Institute and its subsidiary. The Institute accounts for its interests in jointly controlled entities using the proportionate consolidation method.

(c) Revenue Recognition

Operating grants, including grants from the Province of Alberta, are recognized as revenue, either in the period receivable, or, where a portion of the grant relates to a future period, the portion is deferred and recognized in the subsequent period.

Grants for capital acquisitions, including grants from the Province of Alberta, are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing funded capital assets and contributions of property are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the earned capital contributions revenue are matched to indicate that the related amortization expense has been funded.

Unrestricted contributions are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined. Unrestricted investment income is recognized in revenue as it is earned.

Note 2 Significant Accounting Policies (continued)

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expense is incurred. Externally restricted amounts can only be used for purposes designated by external parties. Any externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property.

Amounts received for tuition fees and the sale of goods and services are recognized as revenue in the period in which the goods are delivered or the services are provided. Revenue from earned revenue contracts is recognized using the percentage of completion method. Pledges are recognized as revenue when collected.

(d) Investments

Short-term investments are recorded at the lower of cost or market value. Investments not available for current purposes are recorded at cost. Gains and losses on investments are recognized at realization, or when there is an other than temporary decline in the value of an investment.

(e) Capital Assets

As determined by an independent appraisal as at April 1982, land was recorded at fair market value and buildings were recorded at amortized replacement cost. Subsequent additions are recorded at cost.

Furnishings, equipment and computer software are recorded at cost. Donated assets are recorded at fair value at the date of contribution when fair value can be reasonably estimated; otherwise they are recorded at a nominal amount.

Capital assets are amortized on a straight-line basis over the following average useful lives:

Buildings	40 years
Renovations	10 or 25 years
Furnishings, equipment, and library	10 years
Computer servers	3 or 10 years
Vehicles	5 years
Computer hardware and software	3 years
Leasehold improvements	Length of lease

Construction in progress includes the direct construction costs and overhead costs directly attributable to the construction including engineering and legal fees and interest on specific debt attributed to the construction of capital assets. Construction projects in progress are not amortized until the project is ready for use.

The fair value of a liability for an asset retirement obligation is recognized in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the asset and amortized over its estimated useful life.

When events and circumstances indicate that a capital asset no longer has any service potential, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

(f) Inventories

Inventory of bookstore, materials and supplies merchandise is maintained using the first-in first-out method of costing. Food stores inventory is maintained using average costing. All inventory is valued at the lower of cost or net realizable value.

Note 2 Significant Accounting Policies (continued)

(g) Employee Future Benefits

The Institute participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the Institute's participating employees based on years of service and earnings. This plan is accounted for as a defined contribution pension plan in the Institute's financial statements because the Institute has insufficient information to apply defined benefit accounting. Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the pension plan. The Institute does not record the Institute's portion of the pension plans' deficit or surplus.

The Institute also offers a defined contribution pension plan for eligible employees. The Institute's contributions are based on a percentage of the employee's salary. The pension expense included in these financial statements represents the Institute's required contributions under the plan.

The Institute maintains a supplemental pension plan for certain designated executives of the Institute. The cost of the pension is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, and management's best estimate of economic assumptions. Past service costs and experience gains and losses are amortized on a straight-line basis over the expected average remaining service term of the active membership of the plan. The most recent actuarial valuation of the obligation was performed for July 1, 2005 and the next actuarial valuation will be performed for July 1, 2006.

The Institute also provides employee future benefits in the form of compensated absences. Costs for these benefits are estimated using reasonable assumptions and are included in these financial statements.

(h) Financial Instruments

The fair value of the Institute's receivables, payables and accrued liabilities approximate their carrying values due to the relatively short periods to maturity of these instruments.

The Institute's financial instruments are subject to credit risk, interest rate risk, foreign exchange risk and market risks. The Institute's accounts receivable are due from a diverse group of customers and are subject to normal credit risk. The interest rate risk is the risk to the Institute's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The foreign exchange risk is the risk of rising costs related to purchases denominated in foreign currencies. The market risk is the risk to the Institute's earnings that arises from the fluctuations and degree of volatility in the market value of its long-term investments.

NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS

	2006				2005	
(in thousands)	Cash and Cash Equivalents	Long-Term Investments	Total Cost	Market	Total Cost	Market
Cash	$ (3,715)	$ -	$ (3,715)	$ (3,715)	$ (2,904)	$ (2,904)
Money market investments	108,383	3,674	112,057	112,751	51,909	52,133
Bonds	-	7,783	7,783	7,764	2,781	2,950
Equities	-	12,867	12,867	13,581	6,180	6,812
Total	$ 104,668	$ 24,324	$ 128,992	$ 130,381	$ 57,966	$ 58,991

The overall rate of return for the year was 4.01% (2005 - 3.70%). The rate of return includes realized and unrealized gains and losses, interest and dividends.

At June 30, 2006, the effective yield on money market investments was 4.26% (2005 – 2.57%) and on bond investments was 4.81% (2005 – 3.70%). Effective yield represent the rate that discounts future cash receipts to the carrying value at June 30, 2006. Carrying value of these securities approximates market value. Money market investments mature within 90 days while bond investments have a maturity of up to 25 years. Included in money market investments is $48,577,755 in unspent loan proceeds from the Alberta Capital Finance Authority for construction of a new student residence.

The dividend yield on equity investments was 2.55% (2005 – 2.19%). Dividend yield represents the income return based on current market prices, excluding unrealized gains and losses.

The Institute's investment policies limit investments to credit-worthy counterparties and specify minimum and maximum exposures to certain issuers.

Investment income earned on the above investments has been recorded as follows:

(in thousands)	2006	2005
Investment income	$ 2,938	$ 1,562
Deferred contributions and deferred capital contributions	700	598
Interest earned on loan advance (Note 13)	1,039	-
Capitalized to endowments	300	43
Total investment income earned	$ 4,977	$ 2,203

NOTE 4 ACCOUNTS RECEIVABLE

(in thousands)	2006	2005
Student	$ 58	$ 47
Corporate	5,590	4,206
Other	3,426	2,257
	$ 9,074	$ 6,510

NOTE 5 INVENTORIES

(in thousands)		2006		2005
Bookstore	$	1,395	$	1,442
Material and supplies		413		456
Food stores		137		157
	$	1,945	$	2,055

NOTE 6 CAPITAL ASSETS

(in thousands)		Cost		2006 Accumulated Amortization		Net Book Value		2005 Net Book Value
Land and improvements	$	23,627	$	-	$	23,627	$	23,627
Buildings and renovations		304,723		152,799		151,924		157,494
Furnishings, equipment, and library		62,166		40,494		21,672		17,989
Vehicles		1,365		1,112		253		104
Computer hardware and software		42,184		31,679		10,505		7,242
TLM license		1,113		1,113		-		-
Construction in progress		4,715		-		4,715		486
	$	439,893	$	227,197	$	212,696	$	206,942

Capital acquisitions during the year included donations in kind in the amount of $1,899,345 (2005 - $857,291). Certain software donations have been recognized at nominal value due to the difficulty in obtaining fair market value.

At June 30, 2006, the Institute had assets under capital lease with a cost of $1,234,286 (2005 - $1,107,565) and accumulated amortization of $308,810 (2005 - $184,372).

The Institute has recorded a liability for an asset retirement obligation of $927,492 (2005 – $2,174,678). The asset retirement obligation represents the legal obligation associated with the eventual disposition of a residence building. The Institute has also identified other asset retirement obligations for which the fair value cannot be reasonably estimated due to the indeterminate timing and scope of the asset retirements. The asset retirement obligation for these assets will be recorded in the period in which there is sufficient information to estimate fair value.

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands)		2006		2005
Trade	$	11,346	$	10,681
Salaries, wages and benefits		6,780		6,795
Construction		2,211		2,466
Other		2,000		1,865
	$	22,337	$	21,807

NOTE 8 UNEARNED REVENUE

(in thousands)		2006		2005
Tuition, application fees and prepayments	$	8,657	$	7,349
Earned revenue programs		488		367
Commercial services and other		136		178
	$	9,281	$	7,894

NOTE 9 DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent funds externally restricted for non-capital purposes.

(in thousands)		2006		2005
Increase during the year:				
Access grants	$	21,060	$	9,553
Donations		2,847		3,386
Infrastructure renewal grant		2,617		356
Other grants		2,785		2,397
Restricted income		675		583
		29,984		16,275
Transfers:				
To grant revenue		(15,147)		(14,695)
To donations, contributions, and income on restricted contributions		(2,982)		(3,471)
To deferred capital contributions (Note 10)		(580)		(3,405)
To endowments		(360)		-
		(19,069)		(21,571)
Balance, beginning of year		9,461		14,757
Balance, end of year	$	20,376	$	9,461

The balance of deferred contributions is comprised of:

(in thousands)		2006		2005
Program delivery	$	13,720	$	4,661
Scholarships		1,497		1,457
Other		5,159		3,343
	$	20,376	$	9,461

NOTE 10 DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent unspent funds externally restricted for capital purposes.

(in thousands)		2006		2005
Increase during the year:				
Grants and donations	$	2,785	$	3,044
Transfers from deferred contributions (Note 9)		580		3,405
Restricted income		25		15
		3,390		6,464
Transfers to unamortized deferred capital contributions:				
Restricted capital funds		(716)		(4,113)
Infrastructure renewal funding		(93)		(2,123)
Access funding		(198)		(884)
Other grants and donations		(2,017)		(1,314)
		(3,024)		(8,434)
Balance, beginning of year		2,120		4,090
Balance, end of year	$	2,486	$	2,120

The balance of deferred capital contributions is comprised of:

(in thousands)		2006		2005
Donations	$	2,202	$	2,120
Power plant upgrade grant		284		-
	$	2,486	$	2,120

NOTE 11 EMPLOYEE BENEFIT LIABILITIES

(in thousands)		2006		2005
Current portion				
Accrued vacation pay	$	8,869	$	8,561
Deferred salary plans		61		231
		8,930		8,792
Long-term portion				
Supplemental executive retirement plan (Note 12)		455		314
Deferred salary plans		413		231
		868		545
Total employee benefit liabilities	$	9,798	$	9,337

NOTE 12 EMPLOYEE FUTURE BENEFITS

The Institute provides compensated absences for its employees under a special leave plan. Under this plan, employees contribute 15% of their gross monthly earnings for a contributory period of four years. For the fifth year, employees receive 85% of their gross salary as of the last day of their contributory period. The Institute funds the shortfall between the contributed funds, including interest earned, and the gross salary to be paid in the fifth year. The Institute's liability under this plan included in these financial statements is $187,182 (2005 - $178,442) and has been discounted at a rate of 5%.

The Institute's pension expense attributable to the multi-employer plan was $6,414,098 (2005 - $5,275,832), the Institute's pension expense attributable to the supplemental defined benefit plan was $140,124 (2005 - $133,705), and the Institute's pension expense attributable to the defined contribution plan was $116,521 (2005 - $97,650).

At December 31, 2005, the Local Authorities Pension Plan reported a deficiency of $863,558,000 (2004 - $1,288,924,000). Effective January 1, 2006, the plan increased contribution rates by 0.77% of total pensionable salary for employers and members combined.

The Institute has an unfunded supplementary pension plan for its President, Vice-Presidents, and certain designated executives. The defined benefit plan obligations are as follows:

(in thousands)		2006
Accrued benefit obligation		
Balance, beginning of year	$	555
Current service cost		65
Interest cost		39
Benefits paid		-
Actuarial loss		440
Past service cost		117
Balance, end of year		1,216
Plan assets		-
Funded status - plan deficit		(1,216)
Unamortized actuarial loss		430
Unamortized past service cost		331
Accrued benefit liability	$	(455)
Benefit Cost		
Current service cost	$	65
Interest cost		39
Past service cost		117
Difference between recognized and actual past service cost in year		(82)
Actuarial loss in year		440
Difference between recognized and actual actuarial losses in year		(439)
	$	140

The significant actuarial assumptions adopted in measuring the Institute's accrued benefit obligations are as follows:

	2006	2005
Discount rate	5.50%	6.25%
Average compensation increase	4.00%	4.00%

For the year ended June 30, 2005, the accrued liability recorded in the Institute's financial statements was $314,439. Detailed prior year comparative information is not available.

NOTE 13 LONG-TERM LIABILITIES

(in thousands)		2006		2005
Construction financing for third student residence (a)	$	52,583	$	-
Construction financing for second student residence (b)		18,921		19,421
Capital lease obligations (c)		465		543
		71,969		19,964
Less: current portion		(1,542)		(685)
	$	70,427	$	19,279

Principal payments during the next five fiscal years on long-term liabilities are as follows:

(in thousands)		
2006/07	$	1,542
2007/08		1,612
2008/09		1,701
2009/10		1,661
2010/11		1,723

Interest of $2,520,569 was paid in 2006 (2005 - $1,321,631).

(a) Pursuant to a loan agreement with the Alberta Capital Finance Authority, entered into on December 16, 2005, the Institute borrowed the sum of $53.0 million to finance the construction of a new student residence. The loan bears interest at 4.6% per annum and matures December 16, 2035. Security pledged for the loan includes all future cash flows generated through the operation of this residence. Long-term debt was used to finance $4,004,067 in construction costs in the year.

Net interest of $277,079 was capitalized during the year as follows:

Interest on long term debt	$ 1,316,369
Less: Interest earned on loan advance (Note 3)	(1,039,290)
	$ 277,079

(b) Pursuant to a loan agreement with the Alberta Capital Finance Authority, entered into on June 16, 2000, the Institute borrowed the sum of $21.5 million to finance the construction of a student residence. The loan bears interest at 6.5% per annum and matures June 16, 2025. Security pledged for the loan includes all future cash flows generated through the operation of this residence.

(c) The average implicit interest rate payable on these leases is 9.8% (2005 – 6.4%). Interest of $34,900 (2005 - $28,451) has been charged to expense in the year.

NOTE 14 UNAMORTIZED DEFERRED CAPITAL CONTRIBUTIONS

Unamortized deferred capital contributions represent external funding of capital assets which will be recognized as revenue in future periods. Changes in unamortized deferred capital contributions are as follows:

(in thousands)		2006		2005
Transferred from deferred capital contributions (Note 10)	$	3,024	$	8,434
Contributed equipment and software		1,899		857
Transferred to revenue		(8,593)		(9,769)
Decrease during the year		(3,670)		(478)
Unamortized deferred capital contributions, beginning of year		120,280		120,758
Unamortized deferred capital contributions, end of year	$	116,610	$	120,280

NOTE 15 INVESTED IN CAPITAL ASSETS

(in thousands)		2006		2005
Net book value of capital assets (Note 6)	$	212,696	$	206,942
Capital assets financed by long-term liabilities (Note 13)		(23,390)		(19,964)
Unamortized deferred capital contributions (Note 14)		(116,610)		(120,280)
	$	72,696	$	66,698

NOTE 16 ENDOWMENTS

Endowments consist of restricted donations to the Institute, the principal of which is required to be maintained intact in perpetuity as well as any internal allocations by the Board. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board.

Endowments on a cumulative basis:

(in thousands)		2006		2005
Externally restricted	$	10,204	$	8,657
Internal allocations		1,000		1,000
	$	11,204	$	9,657

NOTE 17 CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

(a) The Institute has entered into contracts for the provision of graphic services, caretaking services, transit passes, electricity, steam, and natural gas and for various leases and loans. Under these contracts, future minimum payments are:

(in thousands)	Services	Operating Leases
2006/07	$ 12,373	$ 226
2007/08	9,630	281
2008/09	9,382	310
2009/10	7,295	296
2010/11	6,847	293
Thereafter	12,716	12,299

(b) The Institute is defending a number of legal proceedings. The Institute maintains, on a case-by-case basis, provisions for such items when the expected loss is both probable and can be reasonably estimated based on currently available information. Although it is possible that liabilities may arise in other instances for which no provisions have been made, it is the opinion of management that the resolution of these claims will not have a material effect on the financial position of the Institute. The cost of settling these claims, if any, will be charged to operations upon settlement.

(c) As at June 30, 2006, the Institute has commitments of $43,114,320 for capital projects.

NOTE 18 BUDGET

On June 14, 2005, the Board of Governors approved the revenue and expense budget for the year ended June 30, 2006.

NOTE 19 CONTRIBUTED MATERIALS AND SERVICES

Donated materials and services have been included in these financial statements at their estimated fair market value of $125,200 (2005 - $2,800,000). The Institute received donated software to be used in the delivery of certain programs. Annual license fees for certain software modules used by the Institute have been included in these financial statements at nominal value due to the difficulty in determining their fair value.

NOTE 20 SALARY DISCLOSURE

The following disclosure is prepared in accordance with a Treasury Board directive of the Province of Alberta.

	2006				2005
(in thousands)	Base Salary (1)	Other Cash Benefits (2)	Other Non-Cash Benefits (3)	Total	Total
Executives:					
President & CEO	$ 191	$ 62	$ 98	$ 351	$ 312
Vice President, Academic	156	44	41	241	217
Vice President, Finance & CFO	156	44	50	250	226
Vice President, Employee & Student Services	156	44	30	230	209
Vice President, External Relations	156	44	32	232	208
Board of Governors:					
Chairman of the Board (4)	-	-	-	-	-
Board Members (4)	-	12	-	12	12

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include performance payments and honoraria.

(3) Other non-cash benefits include the Institute's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short- and long-term disability plans, professional memberships, and the supplemental executive retirement plan. An automobile is provided to each executive, but no dollar amount is included in the non-cash benefits figures.

(4) Some members do not accept honoraria.

NOTE 21 CHANGES IN NON-CASH WORKING CAPITAL

(in thousands)	2006	2005
Accounts receivable	$ (2,564)	$ 408
Inventories	110	(141)
Prepaid expenses	13	22
Accounts payable and accrued liabilities	785	5,058
Unearned revenue	1,387	412
Deferred contributions	10,915	(5,296)
Current portion of employee benefit liabilities	138	657
	$ 10,784	$ 1,120

NOTE 22 SEGMENTED INFORMATION

For purposes of internal management and decision making, SAIT divides its operations into four reportable business streams: Grant Funded, Earned Revenue, Commercial Services and Fund Development. The Grant funded stream includes all programs supported by Alberta Advanced Education. The Earned Revenue stream provides career development, continuing education and corporate customized training. Commercial Services consists of Food Services, Bookstore, Parking, Graphics, Student Residence, Conference Services and Campus Centre. Fund Development provides all fundraising initiatives at SAIT in the areas of unrestricted donations, project scholarships, capital projects, and equipment.

Certain comparative information has been restated to reflect changes in the finalization of enrolment counts and student hours. Supplemental performance information has therefore been restated as follows:

	2005	
	As previously reported	As restated
Student hours (contact or equivalent)	9,506,171	9,463,729
Full-load equivalent students (FLE)	11,563	11,593
Academic program cost per FLE student	$ 14,587	$ 14,549
Average student hours per FLE	822	816

The decrease in student hours and increase in full-load equivalent students are due to finalization of these measures with Advanced Education. The decrease in academic cost and average student hours per full-load equivalent student are due to the decrease in student hours and the increase in full-load equivalent students.

Note 22 Segmented Information (continued)

The accounting policies of the segments are the same as those described in the significant accounting policies in Note 2.

	Academic Streams		Non-Academic Streams			
For the year ended June 30, 2006 (in thousands)	Grant Funded Programs	Earned Revenue	Commercial Services	Fund (5) Development	Inter-departmental Eliminations	Total
Revenue	$ 151,887	$ 41,082	$ 23,661	$ 3,680	$ (5,205)	$ 215,105
Direct cost (1)	57,656	22,945	18,913	2,992	(5,205)	97,301
Academic support (2)	21,229	6,253	-	-	-	27,482
Support services (3)	32,710	6,387	-	2,802	-	41,899
Institutional costs (4)	15,371	-	306	-	-	15,677
Interest expense	103	-	1,264	-	-	1,367
Amortization & loss on disposal	14,650	-	1,049	-	-	15,699
Total expenses	141,719	35,585	21,532	5,794	(5,205)	199,425
Net	$ 10,168	$ 5,497	$ 2,129	$ (2,114)	$ -	$ 15,680
Student hours (contact or equivalent) (6)	6,824,102	2,847,532	-	-	-	9,671,634
Full-load equivalent students (FLE) (7)	8,147	3,557	-	-	-	11,704
Academic program cost per student hour (8)	$ 21	$ 12	$ -	$ -	$ -	$ 18
Academic program cost per FLE student (9)	$ 17,221	$ 9,976	$ -	$ -	$ -	$ 15,020
Average student hours per FLE	838	801	-	-	-	826
For the year ended June 30, 2005 (in thousands)						
Revenue	$ 141,881	$ 38,406	$ 22,962	$ 3,773	$ (4,893)	$ 202,129
Direct cost (1)	58,535	22,621	18,041	3,004	(4,893)	97,308
Academic support (2)	18,365	5,885	-	-	-	24,250
Support services (3)	28,688	5,122	-	2,542	-	36,352
Institutional costs (4)	13,165	-	608	-	-	13,773
Interest expense	29	-	1,292	-	-	1,321
Amortization & loss on disposal	17,377	-	1,219	-	-	18,596
Total expenses	136,159	33,628	21,160	5,546	(4,893)	191,600
Net	$ 5,722	$ 4,778	$ 1,802	$ (1,773)	$ -	$ 10,529
Student hours (contact or equivalent) (6)	6,840,655	2,623,074	-	-	-	9,463,729
Full-load equivalent students (FLE) (7)	8,276	3,317	-	-	-	11,593
Academic program cost per student hour (8)	$ 20	$ 13	$ -	$ -	$ -	$ 18
Academic program cost per FLE student (9)	$ 16,324	$ 10,122	$ -	$ -	$ -	$ 14,549
Average student hours per FLE	827	791	-	-	-	816

Note 22 Segmented Information (continued)

(1) Direct cost represents direct department costs of delivering programs. Direct costs include salaries, wages, contracts and benefits as well as non-personnel costs such as supplies and services and repairs and maintenance.

(2) Academic support includes all administration costs directly held in academic departments. Academic support includes salaries, wages, contracts and benefits as well as non-personnel costs such as supplies and services and repairs and maintenance for academic and academic support departments.

(3) Support services include operating expenses for departments supporting SAIT's operations. This item includes the following departments: Executive Offices, Finance, Facilities Management, Information Systems, Human Resources, Marketing & Communications, Alumni & Development, Corporate Training, and Customer Services. Costs included within these departments include student registrations, student counseling, student health services, custodial services, security, cashiers, shipping and receiving, software and technical services. Support services are allocated to Earned Revenue, Commercial Services or Fund Development where specific costs can be identified and could include work groups within departments, entire departments or other non personnel costs.

(4) Institutional costs are related to the operations of the Institute as a whole rather than the operations of any particular department. These costs include but are not limited to investment fees, insurance premiums, bank charges, legal fees, worker's compensation premiums, facility renovation projects and utilities. Institutional costs have not been allocated to Earned Revenue or Fund Development.

(5) Fund development is an integral part of a post-secondary institution. Activities include not only unrestricted donations but project scholarship endowment and capital fundraising as well. Funds recognized in revenue in the current year do not reflect total funds raised and subsequently deferred for future years. Total funds raised in 2006 were $7,529,000 and $8,672,000 in 2005.

(6) Student hours (contact or equivalent) represent the number of classroom (including hours derived from courses taught by alternate delivery methods i.e. correspondence, teleconference and computer managed learning), laboratory or practicum hours assigned to each course multiplied by the number of students enrolled in each course. The number of students enrolled and the related student hours is obtained from the Institute's Student Information System.

(7) As defined by the Ministry of Advanced Education, one full-load equivalent (FLE) student reflects one student completing the full load for one year of study in a program, or several students combining to complete the equivalent of a normal full load. For programs where a year of study requires 24 to 36 weeks, an individual student taking a full load will earn one FLE. A student completing the requirements for a program less than 24 weeks will earn less than one FLE for a full year of study. Similarly, a student completing the requirements for a program greater than 36 weeks will earn more than one FLE for a full year of study. The FLE computation for a short program is based on a 32 week program of study. Apprenticeship Training Programs use 30 weeks as the standard length for FLE computations for one year of study in a program.

Programs are designed by the Institute - curriculum, program length and delivery mode.

The number of FLE students enrolled in credit courses during the year is calculated by:
(i) accumulating the student hours (contact or equivalent) of a student through an academic year,
(ii) dividing the accumulated student hours by the hours required to complete a year of study in a program, and
(iii) aggregating the numbers for all students.

In addition, non-credit course registrations are converted to FLE's in the same manner as credit courses.

(8) Academic program cost per student hour is calculated based on total expenses less specific cost recoveries, divided by the number of student hours. Cost recoveries in 2006 totaled $1,416,366 for Grant Funded Programs and $99,054 for Earned Revenue. Cost recoveries in 2005 totaled $1,068,000 for Grant Funded Programs and $52,000 for Earned Revenue.

(9) Academic program cost per FLE is calculated based on total expenses less specific cost recoveries, divided by the number of FLE's. Cost recoveries in 2006 totaled $1,416,366 for Grant Funded Programs and $99,054 for Earned Revenue. Cost recoveries in 2005 totaled $1,068,000 for Grant Funded Programs and $52,000 for Earned Revenue.

NOTE 23 EMPLOYMENT WITHIN ONE YEAR OF COMPLETION

	Surveyed...		Of Those Responding.....		Of Those Looking for Employment (1)			
Employment Results for Students Who Completed a Certificate, Applied Degree or Diploma Program in 2005	Number of Students Who Completed a Surveyed Program	Number of Survey Respondents	Number Not Seeking Employment	Number Seeking Employment	Full-time, Permanent Employment	Full-time Employment Annualized Salary Median	Contract, Part-time or Temporary Employment	Overall Employment Rate
Business and Tourism	1,009	887	74	813	588	$30,000	191	96%
Construction	267	243	8	235	205	$40,000	26	98%
Energy	385	327	14	313	267	$53,400	37	97%
Health and Public Safety	489	442	21	421	280	$38,400	134	98%
Information and Communications Technologies	829	717	34	683	497	$36,296	174	98%
Manufacturing and Automation	135	127	14	113	93	$40,320	11	92%
Transportation	209	196	2	194	162	$35,000	28	98%
Totals	3,323	2,939 88%	167 6%	2,772 94%	2,092 75%	$36,000	601 22%	97%
Prior year totals	2,460	2,218 90%	332 15%	1,886 85%	1,450 77%	$33,000	398 21%	98%

(Percentage totals may not add in this table because of rounding)

(1) Includes only individuals who found employment within one year.

Note 23 Employment Within One Year of Completion (continued)

The employment survey does not include students who have completed the Certificate/Diploma Academic Upgrading Program, Apprenticeship Training Program, and EMR (Emergency Medical Responder) program. In the prior year, the employment survey does not include students who have completed the Certificate/Diploma Academic Upgrading Program, Apprenticeship Training Programs, EMT-A (Emergency Medical Technician - Ambulance), EMR (Emergency Medical Responder) or Earned Revenue Programs.

Employment information was collected from students (or their proxy) who had completed a program of study during the 2004-2005 academic year. In the current year, all students recorded as graduates as of December 22, 2005 were surveyed.

Surveys were conducted by telephone between February and May 2006. In the prior year, the surveys were conducted by telephone between January and April 2005.

Employment is full-time if the student who completed a program indicated that their job was full-time (equal to or greater than 30 hours per week) at the time of the survey.

Contract, part-time, or temporary employment includes students who completed a program and were employed in a contract, part-time, or temporary position at the time of the survey, or had been for at least three months in such a position prior to the survey date, but were not employed at the date of the survey.

NOTE 24 RELATED PARTY TRANSACTIONS

The Institute is a Provincial Corporation as all the members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions in the current period between the Institute and the Province were as follows:

	2006		2005	
(in thousands)	**Revenue**	**Deferred Contributions/ Unamortized Deferred Capital Contributions**	Revenue	Deferred Contributions/ Unamortized Deferred Capital Contributions
Alberta Advanced Education:				
Operating grant	**$ 84,467**	**$ -**	$ 76,454	$ -
Access	**12,238**	**10,860**	13,116	2,922
Performance funding	**606**	**-**	915	-
Centennial rebate	**3,384**	**-**	-	-
Miscellaneous grants	**2,874**	**1,854**	1,220	358
	103,569	**12,714**	91,705	3,280
Other provincial departments and agencies:				
Infrastructure renewal	**1,357**	**1,612**	827	353
Natural gas rebate	**1,052**	**-**	474	-
Miscellaneous grants	**383**	**1,298**	157	1,293
	$ 106,361	**$ 15,624**	$ 93,163	$ 4,926

Note 24 Related Party Transactions (continued)

Included in earned revenue, tuition fees, and sales, rentals and services are additional revenues received from Alberta Advanced Education and Alberta Human Resources and Employment that amount to $49,479 (2005 - $107,670) and $2,331,819 (2005 - $2,731,116) respectively. At June 30, 2006, the accounts receivable balance included an amount of $371,131 (2005 - $200,607) due from provincial departments and agencies.

During 2005 and 2006, the Institute had business transactions with corporations for which certain Board members of the Institute served as senior management. These transactions were at market prices on normal terms of purchase and sale.

In 2005 and 2006, the Institute participated in offering certain courses with other public colleges and universities. The revenues and expenses incurred for these courses have been included in the consolidated statement of operations, but have not been separately quantified.

In addition, the Institute provides systems support to some other public colleges. The revenues and expenses incurred for these services have been included in the consolidated statement of operations. Revenue from these agreements in the amount of $182,765 (2005 - $189,889) is included in these financial statements. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair value.

The Institute owns the land and building currently being used by the Alberta College of Art and Design ("ACAD"). This use is granted through a facility license agreement in place between the Institute and ACAD. The term of the license is through a renewable contractual agreement between the two parties determined at the pleasure of the Minister of Advanced Education. The Institute has Infrastructure Renewal Funds totaling $861,180 to be utilized for the maintenance of the building being used by ACAD. During the year, no funds were utilized for this purpose. The land, building and Infrastructure Renewal Funds have not been recorded in these financial statements.

NOTE 25 INTEREST IN JOINT VENTURES

The Institute has a 33% ownership interest in PanGlobal Training Systems Limited ("PanGlobal"), a joint venture with the Northern Alberta Institute of Technology and the British Columbia Institute of Technology. PanGlobal is involved in the production and marketing of Power Engineering multimedia learning products.

The Institute has a 49% ownership interest in SAIT National Polytechnic (ME) LLC ("SNPME"), a joint venture with the National Professional Training & Development Institute in the United Arab Emirates. SNPME was incorporated on April 25, 2006 and is involved in the provision of technical training and consulting services for the energy industry in the United Arab Emirates. The Institute receives 50% of the net profits and losses recorded by SNPME.

Interests in PanGlobal and SNPME are proportionately consolidated in the Institute's financial statements as follows:

(in thousands)		2006		2005
Total assets	$	321	$	373
Total liabilities	$	208	$	185
Revenue	$	938	$	718
Expense		875		675
Net income	$	63	$	43
Cash provided from operating activities	$	117	$	215
Cash used in financing activities	$	(139)	$	(124)

NOTE 26 FUNDS HELD ON BEHALF OF OTHERS

The Institute has no equity in the following funds and administers them on behalf of others. Accordingly, these funds are not included in the consolidated financial statements:

(in thousands)		2006		2005
Alberta Online Learning	$	**2,511**	$	1,681
Alberta Association in Higher Education for Information Technology		**(139)**		96
Other		**917**		823
	$	**3,289**	$	2,600

NOTE 27 PLEDGES

Outstanding pledges at June 30, 2006 are $13,311,985 (2005 - $8,680,307) and have not been recorded as accounts receivable. These pledges are expected to be honored over the next several years.

NOTE 28 COMPARATIVE FIGURES

Certain June 30, 2005 figures have been reclassified to conform to the current year presentation.

ATHABASCA UNIVERSITY
Financial Statements

For the year ended March 31, 2007

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flow
- Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Athabasca University Governing Council

I have audited the statement of financial position of Athabasca University as at March 31, 2007 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 11, 2007

ATHABASCA UNIVERSITY

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2007

(thousands of dollars)

	2007	2006 (Restated, Note 3)
ASSETS		
Current assets		
Cash and short-term investments (Note 4)	$ 20,213	$ 16,531
Accounts receivable (Notes 3 and 5)	4,558	4,464
Inventory of course materials	3,340	2,913
Prepaid expenses	834	855
	28,945	24,763
Non-current investments (Notes 4 and 6)	29,468	28,093
Deferred course development costs (Note 7)	211	282
Capital assets (Note 8)	20,062	21,565
	$ 78,686	$ 74,703
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accruals	$ 3,099	$ 2,431
Salaries and benefits payable (Note 9)	6,091	5,121
Deferred revenue	11,829	11,185
Deferred contributions (Note 10)	2,943	1,550
Current portion of obligation under capital lease (Note 11)	-	52
Current portion of deferred lease inducement (Note 12)	117	97
	24,079	20,436
Deferred salaries and benefits payable (Notes 9 and 20)	3,338	2,704
Deferred lease inducement (Note 12)	263	380
Unamortized deferred capital contributions (Note 13)	11,441	13,283
Unamortized course development contributions (Note 13)	211	282
	39,332	37,085
Net assets		
Investment in capital assets (Note 8)	8,621	8,230
Endowments (Note 15)	1,560	1,249
Internally restricted	27,009	26,217
Unrestricted	2,164	1,922
	39,354	37,618
	$ 78,686	$ 74,703

Approved on behalf of the Governing Council

Joy Romero, P.Eng., MBA
Chair

Dr. Frits Pannekoek
President

The accompanying notes are part of these financial statements.

ATHABASCA UNIVERSITY

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2007

(thousands of dollars)

	2007	2006 (Restated, Note 3)
Revenue		
Province of Alberta grants (Note 18)	$ 31,064	$ 30,113
Undergraduate student fees	33,485	30,516
Sales of goods and services	12,635	10,040
Graduate student fees	12,282	13,047
Interest	2,351	1,326
Amortization of unamortized deferred capital contributions (Note 13)	1,892	1,909
Research and other grants	780	1,000
Donations (Note 19)	684	213
Other	118	96
Amortization of deferred course development contributions (Note 13)	71	88
	95,362	88,348
Expenses		
Salaries and benefits	59,828	50,802
Fees and purchased services	13,100	11,284
Materials and supplies	8,421	8,075
Communications and travel	6,541	5,538
Amortization of capital assets	3,780	3,877
Facilities rental	1,079	996
Insurance, utilities and taxes	677	672
Scholarships	419	407
Amortization of deferred course development costs (Note 7)	71	88
	93,916	81,739
Excess of revenue over expenses	$ 1,446	$ 6,609

The accompanying notes are part of these financial statements.

ATHABASCA UNIVERSITY

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2007

(thousands of dollars)

	2006 Balance, beginning of year (Restated, Note 3)	Excess of revenue over expenses	Investment in capital assets, internally funded	Amortization of internally funded assets	Endowment contributions net of expenditures (Note 15)	Interfund transfers	2007 Balance, end of year
Internally Restricted							
Operating							
New program development	$ 6,735	$ 549	$ -	$ -	$ -	$ 1,416	$ 8,700
Future student awards	1,645	-	-	-	-	109	1,754
Bridging to retirement	3,900	(199)	-	-	-	399	4,100
Future claims reserve	337	75	-	-	-	-	412
	12,617	425	-	-	-	1,924	14,966
Capital							
Infrastructure	3,600	(680)	(877)	-	-	-	2,043
Investment in systems development	10,000	-	(349)	-	-	349	10,000
	13,600	(680)	(1,226)	-	-	349	12,043
Internally restricted sub-total	26,217	(255)	(1,226)	-	-	2,273	27,009
Investment in capital assets	8,230	-	2,279	(1,888)	-		8,621
Endowments	1,249	-	-	-	290	21	1,560
Unrestricted	1,922	1,701	(1,053)	1,888	-	(2,294)	2,164
Total Net Assets	$ 37,618	$ 1,446	$ -	$ -	$ 290	$ -	$ 39,354

The accompanying notes are part of these financial statements.

ATHABASCA UNIVERSITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2007

(thousands of dollars)

	2007	2006 (Restated, Note 3)
Cash provided from operating activities:		
Excess of revenue over expenses	$ 1,446	$ 6,609
Items not affecting cash flow:		
Amortization of capital assets	3,780	3,877
Transfer to deferred capital contributions (Note 10)	50	3,301
Amortization of deferred course development costs	71	88
Increase in deferred salaries and benefits payable	634	712
Amortization of deferred course development contributions	(71)	(88)
Amortization of deferred lease inducement	(97)	(126)
Amortization of deferred capital contributions	(1,892)	(1,909)
	3,921	12,464
Change in non-cash working capital		
Change in current assets, except cash and short-term investments	(500)	(1,118)
Change in current liabilities, except current portions of obligation under capital lease and deferred lease inducement	3,675	(2,022)
	3,175	(3,140)
	7,096	9,324
Cash used in investing activities:		
Capital asset acquisitions, internally funded	(2,227)	(2,049)
Capital asset acquisitions, externally funded	(50)	(3,301)
Increase in non-current investments	(1,375)	(7,217)
	(3,652)	(12,567)
Cash provided from financing activities:		
Deferred lease inducement (Note 12)	-	603
Endowment contributions, net	290	26
Capital lease payments (Note 11)	(52)	(49)
	238	580
Increase (decrease) in cash and short-term investments	3,682	(2,663)
Cash and short-term investments, beginning of year	16,531	19,194
Cash and short-term investments, end of year	$ 20,213	$ 16,531

The accompanying notes are part of these financial statements.

ATHABASCA UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2007

(thousands of dollars)

Note 1 Authority and Purpose

Athabasca University (the "University") operates under the authority of the Post-Secondary Learning Act, Statutes of Alberta 2003, chapter P-19.5. It is directed by an appointed Governing Council and offers undergraduate and graduate degree programs through distance education. The University is a registered charity and is exempt from the payment of income taxes.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General – GAAP and Use of Estimates

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, known as GAAP. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates which may vary from actual results. Such estimates, the potential errors in which are, in administration's opinion, within reasonable limits of materiality, have been made using professional judgment and conform to the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

(b) Revenue Recognition

Government operating grants are recognized as revenue in the period received or receivable, or when a portion of the grant relates to a future period they are deferred and recognized in the subsequent period.

Revenue received for the provision of goods and services is recognized in the period in which the goods are provided or the services rendered. Deferred revenue includes course fees received in advance.

Contributions restricted for purposes other than endowment or the acquisition of capital assets are deferred and recognized as revenue in the year in which the related expenses are incurred. Contributions restricted for the acquisition of capital assets having limited life are initially recorded as deferred capital contributions in the period in which they are received. Deferred capital contributions are transferred to unamortized deferred capital contributions when expended and are amortized to revenue over the useful lives of the related assets. Contributions restricted for the acquisition of non-consumable capital assets (e.g., land) are initially recorded as deferred contributions in the period in which they are received and, when expended, are recognized as direct increases in net assets.

Contributions restricted for the development of courses are deferred and amortized to revenue over five years.

Endowed donations, including investment earnings, are recognized as direct increases in net assets in the period in which they are received. The portion of investment earnings which, in accordance with agreements with benefactors or the authority provided by Section 76(2)(c) of the Post-Secondary Learning Act, is used to fund scholarships is transferred to investment income.

Donations of goods and services that otherwise would have been purchased are recorded at fair value when a fair value can be reasonably determined; otherwise, they are recorded at nominal value.

Volunteers contribute services to assist the University in carrying out its mission. Such contributed services are not recognized in these financial statements.

(c) Fair Value of Financial Instruments

The carrying values of financial assets and financial liabilities are considered to approximate fair value unless otherwise disclosed.

(d) Investments

Current investments are valued at the lower of cost and market value. Non-current investments are valued at cost or, when there has been other than a temporary impairment in the value of the investment, at market value, which is considered the new cost. Gains or losses on sales of investments are recognized in the year of disposal. The investment in a joint venture is accounted for using the equity method.

(e) Inventory of Course Materials

Inventory of course materials is valued at the lower of cost and net realizable value.

(f) Copyrights

The University obtains copyrights on all course materials produced. These copyrights are recorded at a nominal value of one dollar and are included in prepaid expenses.

(g) Deferred Course Development Costs

Costs for the development of special purpose courses sponsored through Curriculum Redevelopment Funding are deferred and amortized over five years from the time development is completed.

(h) Capital Assets

Capital asset acquisitions are recorded at cost, except for donated assets, which are recorded at fair value. Except for works of art (1), capital assets are amortized on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Buildings	40
Site improvements	10 - 25
Computing equipment and software	3 - 10
Vehicles, furnishings and other equipment	5 - 10
Leasehold improvements	lesser of 5 years or lease term
Library materials	10

(1) Works of art purchased by the University are recorded at cost and donated works of art are recorded at fair value. Works of art are not amortized. Works of art include sketches, limited edition prints, photographs, sculptures, rare books, and original paintings. The works of art are held by the University for public exhibition.

(i) Employee Future Benefits

The University participates with other employers in two defined benefit pension plans, the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for the University's employees during the year, based on contribution rates that are expected to provide for benefits payable under the respective pension plan. The University does not record its portion of the pension plans' deficits or surpluses.

The University's other defined benefit plans include the following: Administrative Leave, Flexible Benefits, Extended Health and Dental Care, Life and Dependent Life Insurance, Weekly Indemnity, Long Term Disability and General Illness.

For the Administrative Leave and Flexible Benefit Plans, the cost of benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation. Net actuarial gains (losses) are recognized immediately.

For the Extended Health and Dental Care Plans, the costs of benefits earned by employees is the actual claims paid during the period, the insurer's cost of administration, net of interest, plus the year-over-year change in the estimate for any claims that may have occurred, but have not been paid.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(i) Employee Future Benefits (continued)

For the Life and Dependent Life Insurance, Weekly Indemnity and Long Term Disability Plans, the cost of the employee future benefit, if any, is not reflected. Future premium rates are negotiated annually. Rate adjustments are determined based on a combination of the insurer's manual rate and the University's actual claims experience over the past five years. Any plan assets resulting from the surplus or deficit of the plans are attributed to the insurer.

The cost of future benefits related to employees on general illness at year end is not significant and is therefore not included in the University's financial statements.

(j) Deferred Lease Inducement

One of the University's operating leases for premises provides for a lease inducement. This inducement has been deferred and is being recorded as a reduction of rent expense over the term of the lease.

(k) Internally Restricted Net Assets

The University has designated internally restricted net assets for future operating and capital needs. These amounts are not available for other purposes without the approval of Governing Council.

Note 3 Restatement

The University has retroactively adjusted its accounting for employee future benefit plans for amounts held by benefit carriers for premium stabilization in excess of liabilities of the various benefit plans. As a result, the University's financial statements have been restated as follows:

	2006
Accounts receivable, as previously stated	$ 4,127
Net position of benefit plans at March 31, 2005	246
Change in net position of benefit plans, 2006	91
Accounts receivable, as restated	$ 4,464
Excess of revenue over expense, as previously stated	$ 6,518
Change in net position of benefit plans	91
Excess of revenue over expense, as restated	$ 6,609
Internally Restricted Net Assets, as previously stated	$ 25,880
Net position of benefit plans at March 31, 2005	246
Change in net position of benefit plans, 2006	91
Internally Restricted Net Assets, as restated	$ 26,217

Note 4 Cash and Investments

Cash and investments consist of bank account balances, money market investments and other investments, as follows:

	2007[1]	2006[1]
Bank balances	$ 6,587	$ 5,160
Money market investments[2]	16,589	39,148
Investment Fund[3]	25,908	-
Other investments	597	316
Total Cash and Investments	49,681	44,624
Less amount recorded as non-current	(29,468)	(28,093)
Cash and short-term investments	$ 20,213	$ 16,531
Non-current investments are comprised of:		
Endowments	$ 1,560	$ 1,249
Deferred salaries and benefits payable	3,338	2,704
Internally restricted net assets, non-current portion	23,973	23,824
Shares and joint venture interest	597	316
Non-current investments	$ 29,468	$ 28,093

(1) Fair value of cash and investments approximates carrying value.

(2) Money market investments are purchased at a discount and are rated R-1 or better (rated by the Dominion Bond Rating Service). For the year ending March 31, 2007, the average effective yield was 4.36% (2006 – 3.76%). Investments held at March 31, 2007 mature within 30 days.

(3) For the year ended March 31, 2007 the average effective yield for the investment fund was 6.3%.

During 2006-2007, the University began transfer of its money market investments to an Investment fund. The Investment Fund is managed by the external fund manager on a pooled basis.

The Investment Policy for Athabasca University, approved by the Athabasca University Governing Council, provides the structure and guidelines within which the University's investment portfolio is to be effectively and ethically maintained, managed and enhanced. The University's Investment Advisory Group has the delegated authority for the oversight of the University's investments.

An investment objective is to ensure that the investments are selected to match the anticipated cash flow requirements of the University. Therefore, short, medium, and long term (including endowment) investment portfolios have been established. Minimum and maximum ranges have been set for each type of qualifying investment within each investment portfolio.

Note 4 Cash and Investments (continued)

The investment fund comprises

	2007					2006
	Short-term - less than 1 year [1]	Medium-term - 1 to 5 years [2]	Long-term - greater than 5 years [3]	Endowment - greater than 5 years [3]	Total Investment Fund	Total Investment Fund
Cash and short-term	$ 2,001	124	216	20	$ 2,361	$ -
Fixed income	-	8,198	6,317	624	15,139	-
Equities						
Canadian	-	593	2,530	251	3,374	-
US	-	682	2,200	218	3,100	-
International	-	401	1,395	138	1,934	-
Total Equities	-	1,676	6,125	607	8,408	-
Total Investment Fund	$ 2,001	$ 9,998	$ 12,658	$ 1,251	$ 25,908	$ -

(1) In accordance with the Investment Policy, the entire short-term portfolio is invested in readily liquid securities and/or in cash.

(2) 83% of the medium-term portfolio is invested in fixed income securities. This complies with the prescribed range of 75% to 100%. 17% of the medium-term portfolio is invested in equities listed in the S&P/TSX composite index, which is within the prescribed range of up to 25%.

(3) 52% of the long-term and endowment portfolios are invested in fixed income securities. This is within the prescribed range of 50% to 100%. 48% of the long-term and endowment portfolios are invested in equities listed in the S&P/TSX composite index, which is within the prescribed range of up to 50%.

Note 5 Accounts Receivable

Accounts receivable include $1,436 (2006 - $1,626) in grants due from the Province of Alberta.

Note 6 Interest in Joint Venture

The University has a one-third joint venture interest in the Campus Alberta Applied Psychology: Counselling Initiative. Three Alberta universities have formed the joint venture to develop and deliver this collaborative graduate degree.

The University's share of the joint venture's assets, liabilities and equity is:

		2007		2006
Current assets		$ 647		$ 581
Capital assets		1		3
		$ 648		$ 584
Current liabilities		$ 50		$ 265
Unamortized deferred capital contributions		-		1
Investment in capital assets		1		2
		51		268
Joint venture interest				
Opening balance		316		291
Net distribution		(101)		(80)
Excess of revenues over expenses				
Revenues	$1,014		$ 675	
Expenses	632	382	570	105
		597		316
		$ 648		$ 584

Note 7 Deferred Course Development Cos

	2007	2006
Balance, beginning of year	$ 282	$ 370
Amount amortized during the year	(71)	(88)
Balance, end of year	$ 211	$ 282

Note 8 Capital Assets and Investment in Capital Assets

	2007			2006		
	Cost [1]	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 1,565	$ -	$ 1,565	$ 1,565	$ -	$ 1,565
Buildings and site improvements	26,624	15,142	11,482	25,747	14,372	11,375
Leasehold improvements	2,180	1,404	776	2,128	1,172	956
Furnishings, equipment and software (Note 11)	22,391	17,574	4,817	22,095	15,600	6,495
Library materials	5,367	4,565	802	5,074	4,520	554
Works of art	620	-	620	620	-	620
	$ 58,747	$ 38,685	20,062	$ 57,229	$ 35,664	21,565
Unamortized deferred capital contributions related to capital assets (Note 13)			(11,441)			(13,283)
Obligation under capital lease (Note 11)			-			(52)
Investment in capital assets			$ 8,621			$ 8,230

(1) Beginning August 1, 2006, for a term of 99 years, the University has leased certain lands (Lot 3 and 4, Block 8, Plan 0623053 – to the north of and adjacent to its main campus) to the Town of Athabasca and the County of Athabasca for a nominal amount of $1 per year. The Athabasca Regional Multiplex is in the process of construction on this site.

Note 9 Salaries and Benefits Payable

	2007	2006
Other defined benefit plans		
Administrative Leave Plan	$ 1,573	$ 1,480
Flexible Benefit Plan	1,276	1,083
Total other defined benefit plans (Note 20)	2,849	2,563
Salaries and wages	2,823	2,217
Vacation pay	1,951	1,588
Professional development funds	1,806	1,457
Total salaries and benefits payable	9,429	7,825
Current portion of salaries and benefits payable	(6,091)	(5,121)
Deferred salaries and benefits payable	$ 3,338	$ 2,704

Deferred salaries and benefits payable are the long-term accrued benefit obligations of the Administrative Leave Plan, Flexible Benefit Plan and professional development accounts.

Note 10 Deferred Contributions

Deferred contributions represent unspent restricted grants and donations. Changes in the deferred contributions balances are as follows:

	2007	2006
Balance, beginning of year	$ 1,550	$ 1,801
Grants received	2,899	2,296
Donations received subject to external restrictions (Note 19)	-	3,119
Transfer to deferred capital contributions (Note 14)	(50)	(3,301)
Amount recognized as revenue	(1,456)	(2,365)
Balance, end of year	$ 2,943	$ 1,550
The balance consists of funds restricted from:		
Province of Alberta		
Access to the Future Fund	$ 1,200	$ -
Enrolment Planning Envelope	523	292
Innovation and Science	90	130
Community Incentive Program	50	-
Health and Wellness	30	30
Facilities Planning	-	152
Centennial Rebate	-	110
Infrastructure Maintenance	-	47
Sponsored research special projects	1,050	789
	$ 2,943	$ 1,550

Note 11 Obligation Under Capital Lease

The University leased certain equipment under agreements, which were classified as capital leases. There is no capital lease obligation for 2007. For 2006, there was a current lease payable of $52.

Note 12 Deferred Lease Inducement

The University received a lease inducement under an agreement for leased premises in 2006. The inducement has been deferred and is being applied as a reduction of rent expense over the term of the lease as follows:

2008	$ 117
2009	117
2010	117
2011	29
Total unamortized deferred lease inducement	380
Less: current portion	(117)
Long term portion of deferred lease inducement	$ 263

Note 13 Unamortized Deferred Capital and Deferred Course Development Contributions

	2007		2006	
	Capital Assets	Deferred Course Development	Capital Assets	Deferred Course Development
Balance, beginning of year	$ 13,283	$ 282	$ 11,891	$ 370
Transfer from				
Deferred capital contributions (Note 14)	50	-	3,301	-
	13,333	282	15,192	370
Amortized to revenue	(1,892)	(71)	(1,909)	(88)
Balance, end of year	$ 11,441	$ 211	$ 13,283	$ 282

Note 14 Deferred Capital Contributions

Deferred capital contributions represent capital funding received from external sources that remain unspent at March 31. Changes in the deferred capital contributions balances are as follows:

	2007	2006
Balance, beginning of year	$ -	$ -
Transfer from deferred contributions (Note 10)		
Donation in-kind	-	3,100
Cash	50	201
	50	3,301
Transfers to unamortized deferred capital contributions (Note 13)	(50)	(3,301)
Balance, end of year	$ -	$ -

Note 15 Endowments

Endowments consist of externally restricted donations, the principal of which is required to be maintained intact. The use of the investment income is internally restricted as endowments must first be adjusted annually for inflation.

	2007				2006
	Endowments				
	Capital Contributions	Capitalized Earnings	Expendable Earnings	Total	Total
Endowments, beginning of year	$ 1,189	$ 40	$ 20	$ 1,249	$ 1,223
Donations received (Note 19)	250	-	-	250	-
Transfer from internally restricted net assets	-	-	21	21	-
Investment earnings	-	53	9	62	35
Scholarships funded and administrative fees	-	-	(22)	(22)	(9)
Endowments, end of year	$ 1,439	$ 93	$ 28	$ 1,560	$ 1,249

Note 16 Budget

The budget for the year ended March 31, 2007, as approved by the Governing Council on March 31, 2006, is presented together with actual revenue and expenses for the year.

	Actual	Budget
Revenue		
Province of Alberta grants	$ 31,064	$ 28,711
Undergraduate student fees	33,485	33,643
Sales of goods and services	12,635	9,964
Graduate student fees	12,282	13,391
Interest	2,351	1,500
Amortization of deferred capital and deferred course development contributions	1,963	873
Research and other grants	780	2,605
Donations	684	350
Other	118	316
	95,362	91,353
Expenses		
Salaries and benefits	59,828	62,377
Fees and purchased services	13,100	13,013
Materials and supplies	8,421	8,924
Communications and travel	6,541	5,389
Amortization of capital assets and deferred course development costs	3,851	3,147
Facilities rental, insurance, utilities and taxes	1,079	1,118
Insurance, utilities and taxes	677	678
Scholarships	419	305
	93,916	94,951
Revenue over (under) expenses	$ 1,446	$ (3,598)

Note 17 Operating Lease Commitments

The University is committed to operating leases expiring no later than 2013 for facilities and equipment, with the following minimum annual payments:

2008	$ 1,045
2009	$ 564
2010	$ 567
2011	$ 717
2012	$ 697
2013	$ 264

The University is also required to pay a pro rata share of operating expenditures of the facilities.

Note 18 Related Party Transactions

The University operates under the authority and statutes of the Province of Alberta. Transactions between the University and the Province of Alberta are summarized below.

	2007	2006
Operating grant	$ 26,210	$ 22,366
Enrolment Planning Envelope	3,311	4,551
Infrastructure maintenance	142	142
Other	1,443	1,454
Total contributions	31,106	28,513
Change in deferred contributions and other accruals from provincial sources	(42)	1,600
Province of Alberta grants revenue	$ 31,064	$ 30,113

The University offered certain courses at provincial post-secondary institutions. The revenue for these courses amounted to $1,628 (2006 - $1,553).

Note 19 Donations

Donations were received during the year as follows:

	2007			2006
	Cash	In-kind[1]	Total	Total
Amount recognized as revenue	$ 46	$ 638	$ 684	$ 213
Transfers to deferred contributions (Note 10)	-	-	-	3,119
Transfer to endowments (Note 15)	250	-	250	-
Total donations received	$ 296	$ 638	$ 934	$ 3,332

[1] In kind donations of $638 (2006 - $75) consisted of professional services received during the year.

Note 20 Employee Future Benefits

Pension Plans

The University participates in the Universities Academic Pension Plan and the Public Service Pension Plan, which are multi-employer plans. Employer contributions of $3,553 (2006 - $2,925) for the year are expensed in these financial statements.

Since January 1, 2005, the Universities Academic Pension Plan contribution rates for employees are 8.675% (employer 9.675%) of earnings up to the year's maximum pensionable earnings (YMPE) under the Canada Pension Plan and 11.075% (employer 12.075%) of earnings above YMPE.

At December 31, 2006, the Universities Academic Pension Plan reported an actuarial deficiency of $409,128 (2005 - $537,415). This deficiency is being funded by contributions from employees and employers. In addition the Province of Alberta is contributing 1.25% (2005 – 1.25%) of pensionable salary toward the actuarial deficiency for pre-1992 service in accordance with the funding plan adopted in 1992. At December 31, 2006, the University's participating employees comprised 5.3% of the total active membership.

Note 20 Employee Future Benefits (continued)

From September 1, 2004, to December 31, 2006, both employee's and employer's Public Service Pension Plan contribution rates were 6.17% of earnings up to the YMPE and 8.81% of earnings above YMPE. However, the contribution rates increased effective January 1, 2007, to 6.69% of pensionable salary up to the YMPE and 9.55% of the excess for employees and employers.

At December 31, 2006, the Public Service Pension Plan reported an actuarial surplus of $153,024 (2005 – $187,704 deficiency). At December 31, 2006, the University's participating employees accounted for 0.7% of the total active membership.

Administrative Leave and Flexible Benefits Plan

The University's Administrative Leave Plan and a Flexible Benefit Plan, have no plan assets. The University has provided for these plans by accruing a benefit obligation of $2,849 (2006 - $2,563) in salaries and benefits payable (Note 9).

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations for the other defined benefit plans are as follows:

	2007	2006
Discount rate and rate of return		
Administrative Leave Plan	4.75%	4.50%
Flexible Benefit Plan	5.00%	4.75%
Rate of compensation increase		
First year	7.00%	6.00%
Subsequent years	7.00%	6.00%
Average remaining service period of active employees		
Administrative Leave Plan	8 years	7 years
Flexible Benefit Plan	13 years	13 years
Retirement age	60 years	60 years

During the year, the University paid benefits from these benefit plans totaling $634 (2006 - $390). Employee future benefit costs recognized in the year are $920 (2006 - $631).

Extended Health and Dental Care Plans

The accrued benefit obligation and plan assets for the Extended Health and Dental Care defined benefit plans are $77 (2006 - $77) and $489 (2006 - $414) respectively. The net position of the plans of $412 (2006 - $337) is recorded in accounts receivable in the University's statement of financial position. The change in the net position of $75 (2006 - $91) is recorded as a reduction to expenses in the University's statement of operations. Employer premiums paid to Alberta Blue Cross of $1,752 (2006 - $1,421) are recorded as an expense in the University's statement of operations.

Note 21 Salary and Benefits Disclosure

	2007					2006	
	Base Salary(1)	Cash Benefits(2)	Non-cash Benefits(3)	Totals	Number of Individuals	Totals	Number of Individuals
Governing Council							
Chair of Governing Council	$ -	$ -	$ -	$ -	1	$ -	1
Governing Council members	-	-	-	-	15	-	15
Executive Officers							
President	253	24	49	326	1	306	1
Vice-Presidents							
Academic	187	9	31	227	1	188	1
Advancement (5 mths)	98	6	18	122	1		
Finance & Administration	174	13	28	215	1	202	1
Executive Director							
External Relations (7 mths)	56	-	12	68	1	133	1
Chief Information Officer	146	10	28	184	1	156	1
Associate Vice-Presidents							
Academic	139	-	27	166	1	142	1
Research	146	-	28	174	1	163	1
Increase in Administrative Leave Plan accruals(4)							
President				53		40	
Vice Presidents							
Academic				28		40	
Advancement				23		-	
Finance & Administration				44		37	
Executive Director							
External Relations				(19)		19	
Chief Information Officer				45		28	
Associate Vice-Presidents							
Academic				31		26	
Research				-		-	

(1) Base salary is pensionable and includes pay for vacation time taken.

(2) Cash benefits include lump sum payments and any other direct cash remuneration that are non-pensionable.

(3) Non-cash benefits include the employer's share of all employee benefits and contribution payments made on behalf of employees for pension, health care, dental, vision, group life insurance, accidental death and dismemberment insurance, and long and short-term disability plans. In addition, non-cash benefits include tuition paid on behalf of employees.

(4) Administrative Leave Plan accrual amounts include the current service cost, the related net actuarial gains or losses, and adjustments for past service accrued at current salary rates.

Note 22 Comparative Figures

Certain 2006 figures have been reclassified to conform to the presentation adopted in the 2007 financial statements.

UNIVERSITY OF ALBERTA
Financial Statements

For the year ended March 31, 2007

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flow
- Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the University of Alberta

I have audited the statement of financial position of the University of Alberta as at March 31, 2007 and the statements of operations and change in unrestricted net assets, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 25, 2007

STATEMENT OF FINANCIAL POSITION

UNIVERSITY OF ALBERTA

AT MARCH 31, 2007

(in thousands of dollars)

	2007	Restated (Note 18) 2006
ASSETS		
Current		
Cash and cash equivalents (Note 3)	$ 245,704	$ 165,142
Short-term investments (Note 3)	16,211	17,722
Accounts receivable	151,280	129,136
Inventories and prepaid expenses	13,917	11,993
	427,112	323,993
Investments (Note 3)	943,241	810,462
Capital assets and collections (Note 5)	1,537,838	1,394,649
	$ 2,908,191	$ 2,529,104
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	$ 124,399	$ 114,223
Current portion of employee benefit liabilities (Note 6)	31,187	37,839
Current portion of long-term obligations (Note 8)	14,811	5,574
Deferred contributions, research and other (Note 9)	241,765	179,128
Deferred revenue	16,674	15,995
	428,836	352,759
Employee benefit liabilities (Note 6)	42,353	44,248
Long-term obligations (Note 8)	151,544	121,837
Deferred contributions, research and other (Note 9)	90,000	90,000
Deferred contributions, capital (Note 9)	10,501	3,348
Unamortized deferred capital contributions (Note 10)	982,131	885,231
	1,705,365	1,497,423
Net Assets		
Endowments (Note 11)	751,478	640,143
Investment in capital assets and collections (Note 12)	410,418	387,641
Unrestricted	40,930	3,897
	1,202,826	1,031,681
	$ 2,908,191	$ 2,529,104

Signed on behalf of the Board of Governors

Chairman of the Board ***President***

---------- *The accompanying notes are part of these financial statements.* ----------

STATEMENT OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS

UNIVERSITY OF ALBERTA

FOR THE YEAR ENDED MARCH 31, 2007
(in thousands of dollars)

	2007	Restated (Note 18) 2006
REVENUE		
Provincial government (Note 15)	$ 577,267	$ 518,279
Federal and other government	147,167	138,783
Credit course tuition and related fees	181,880	181,798
Sales of services and products	181,741	171,321
Grants and donations	60,344	60,059
Investment income (Note 4)	57,461	52,763
	1,205,860	1,123,003
Amortization of deferred capital contributions (Note 10)	51,874	52,383
	1,257,734	1,175,386
EXPENSE		
Salaries	597,486	566,489
Employee benefits	104,202	98,165
Materials, supplies and services	238,902	220,873
Utilities	35,849	37,916
Maintenance	39,703	38,297
Interest	8,023	7,182
Scholarships and bursaries	69,678	67,588
Amortization of capital assets	98,046	87,952
	1,191,889	1,124,462
EXCESS OF REVENUE OVER EXPENSE	65,845	50,924
TRANSFER TO ENDOWMENTS (Note 11)	(7,614)	(24,634)
NET INVESTMENT IN CAPITAL ASSETS (Note 12)	(21,198)	(31,359)
Change in unrestricted net assets for the year	37,033	(5,069)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	3,897	8,966
UNRESTRICTED NET ASSETS, END OF YEAR	$ 40,930	$ 3,897

---------- *The accompanying notes are part of these financial statements.* ----------

STATEMENT OF CHANGES IN NET ASSETS

UNIVERSITY OF ALBERTA

FOR THE YEAR ENDED MARCH 31, 2007
(in thousands of dollars)

	Endowments			Restated (Note 18) Investment in Capital Assets and Collections	Restated (Note 18) Unrestricted Net Assets
	Externally Restricted	Internally Restricted	Total		
NET ASSETS, March 31, 2005, as previously reported	$ 513,792	$ 43,052	$ 556,844	$ 365,460	$ 8,966
Adjustment to prior period (Note 18)	-	-	-	(17,813)	-
NET ASSETS, March 31, 2005	$ 513,792	$ 43,052	$ 556,844	$ 347,647	$ 8,966
Excess of revenue over expense	-	-	-	-	50,924
Investment income (Note 4)	34,954	-	34,954	-	-
Gifts of endowment principal	23,711	-	23,711	-	-
Transfers (Note 11)	-	24,634	24,634	-	(24,634)
Net investment in capital assets (Note 12)	-	-	-	31,359	(31,359)
Contributions of assets not subject to amortization (Note 12)	-	-	-	8,635	-
NET ASSETS, March 31, 2006	$ 572,457	$ 67,686	$ 640,143	$ 387,641	$ 3,897
Excess of revenue over expense	-	-	-	-	65,845
Investment income (Note 4)	32,536	-	32,536	-	-
Gifts of endowment principal	71,185	-	71,185	-	-
Transfers (Note 11)	20,156	(12,542)	7,614	-	(7,614)
Net investment in capital assets (Note 12)	-	-	-	21,198	(21,198)
Contributions of assets not subject to amortization (Note 12)	-	-	-	1,579	-
NET ASSETS, March 31, 2007	$ 696,334	$ 55,144	$ 751,478	$ 410,418	$ 40,930

----------*The accompanying notes are part of these financial statements*----------

STATEMENT OF CASH FLOWS **UNIVERSITY OF ALBERTA**

FOR THE YEAR ENDED MARCH 31, 2007
(in thousands of dollars)

	2007	Restated (Note 18) 2006
CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES		
Excess of revenue over expense	$ 65,845	$ 50,924
Add (deduct) non-cash items:		
Amortization of capital assets	98,046	87,952
Amortization of deferred capital contributions	(51,874)	(52,383)
Loss on disposal of capital assets	1,055	2,245
Employee benefit liabilities	(8,547)	(681)
Unrealized (gain) loss on investments	(6,449)	(9,979)
Total non-cash items	32,231	27,154
Net change in non-cash working capital (*)	50,935	(28,121)
	149,011	49,957
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES		
Acquisition of capital assets and collections	(242,350)	(249,540)
Purchases of investments, net	(98,522)	(17,111)
Endowment investment earnings in excess of the spending allocation	4,727	3,051
Proceeds on disposal of capital assets	60	61
	(336,085)	(263,539)
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES		
Endowment contributions	71,185	23,711
Capital contributions	155,928	175,896
Contributions restricted for non-amortizable capital assets and collections	1,579	8,635
Long-term obligations - new financing	47,143	6,135
Long-term obligations - repayments	(8,199)	(6,419)
	267,636	207,958
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	80,562	(5,624)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	165,142	170,766
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 245,704	$ 165,142

(*) **Net change in non-cash working capital:**

	2007	2006
Decrease in short-term investments	$ 1,511	$ 9,810
Increase in accounts receivable	(22,144)	(29,328)
(Increase) decrease in inventories and prepaid expenses	(1,924)	992
Increase in accounts payable	10,176	12,669
Increase (decrease) in deferred contributions research and other	62,637	(19,942)
Increase (decrease) in deferred revenue	679	(2,322)
	$ 50,935	$ (28,121)

----------The accompanying notes are part of these statements---------

1. Authority and purpose

The University of Alberta operates under the *Post-Secondary Learning Act* of the Province of Alberta to provide post-secondary and graduate education and to engage in research and public service. The University is a registered charity, and under section 149 of the *Income Tax Act* of Canada, is exempt from the payment of income tax.

2. Significant accounting policies

a) General - GAAP and use of estimates

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, known as GAAP. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using judgments determined by the University's administration. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

b) Interest in joint ventures

The financial statements use the proportionate consolidation method to record the University's proportionate share of each financial statement component of these three joint ventures:

- Tri-University Meson Facility (TRIUMF) (16.7% interest) - a joint venture with five other universities to operate a sub-atomic physics research facility.
- Northern Alberta Clinical Trials and Research Centre (50% interest) - a joint venture with Capital Health to support the shared missions of Capital Health and the University for collaborative clinical research.
- TEC Edmonton (50% interest) – a joint venture with Edmonton Economic Development Corporation to stimulate entrepreneurialism, advance corporate development and accelerate commercialization of new ideas and technologies that benefit society.

These joint ventures are not material to the University's financial statements, and therefore, separate condensed financial information is not presented.

c) Investments, cash and cash equivalents

Cash and cash equivalents are comprised primarily of cash on deposit and certificates of deposit, guaranteed investment certificates, government treasury bills and commercial paper with a maximum maturity of 90 days.

Short-term investments are comprised primarily of certificates of deposit, guaranteed investment certificates, government treasury bills and commercial paper with a maturity between 90 days and one year. These investments are recorded at the lower of cost or fair value. Fair value generally approximates cost given the short term to maturity and high credit quality of the underlying investments.

Long-term investments are recorded at fair value, except for common shares subject to restrictions and real estate. Fair value for marketable securities is determined based on quoted market values for publicly traded bonds and equities, and a market based net asset unit value for pooled bond and equity funds. Fair value for mortgages is calculated as the present value of future expected payments using a discount rate for similar financial instruments of comparable risk and duration. Changes in fair values from one period to the next are included in investment income.

Common shares subject to restrictions on their disposition and real estate are recorded at cost. When a loss in value of such investments occurs that is other than temporary, the investment is written down to recognize the loss.

d) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at cost.

e) Capital assets and collections

Capital assets purchased are recorded at cost. In-kind contributions are recorded at fair value when a fair value can be reasonably determined. Permanent collections are not amortized and include the portion of library assets with permanent value, museum specimens, archival materials, maps and works of art.

Capital assets, once placed into service, are amortized on a straight-line basis over the assets' estimated useful lives. The estimated useful lives are as follows:

Buildings and utilities	10 - 40 years
Equipment and furnishings	3 - 25 years
Learning resources	10 years

f) Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recognized in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the asset and amortized over its estimated useful life.

g) Revenue recognition

The financial statements record the following items as revenue - at the following times:

- Unrestricted contributions - when received, or receivable, if the amount can be reasonably estimated and collection is reasonably assured.
- Unrestricted investment income - when earned; this includes interest, dividends, realized and unrealized gains and losses.
- Pledges - are recognized when collected.
- Revenues received for services and products - when the services or products are provided.
- Tuition fees - when the instruction is delivered.
- Restricted contributions - based on the deferral method.

Restricted contributions – deferral method

Contributions, including investment income on the contributions, that are restricted for purposes other than endowment or capital asset acquisitions, are deferred and recognized as revenue when the conditions of the contribution are met.

Contributions to acquire capital assets with limited life are first recorded as deferred contributions when received, and when expended, they are transferred to unamortized deferred capital contributions and amortized to revenue over the useful lives of the related assets.

Endowment contributions are recognized as direct increases in endowment net assets. Investment earnings, under agreements with benefactors or the *Post-Secondary Learning Act* allocated to endowment principal, are also recognized as direct increases in endowment net assets. Endowment investment earnings that are allocated for spending are deferred and recognized as revenue when the conditions of the endowment are met.

Contributions restricted to the acquisition of land and permanent collections are first recorded as deferred contributions when received, and when expended, they are recognized as direct increases in investment in capital assets and collections.

h) Foreign currency translation

Financial assets and liabilities recorded in foreign currencies are translated to Canadian dollars at the year-end exchange rate. Revenues and expenses are translated at average weekly exchange rates. Gains or losses from these translations are included in investment income.

i) Employee future benefits

Pensions

The University participates with other employers in the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees based on years of service and earnings. Pension expense included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits payable under the respective pension plan.

Long-term disability plans

The cost of providing non-vesting and non-accumulating employee future benefits for compensated absences under the University's long-term disability plans is charged to expense in full when the event occurs which obligates the University to provide the benefits. The cost of these benefits is actuarially determined using the accumulated benefit method, a market interest rate and administration's best estimate of the retirement ages of employees, expected health care costs and the period of employee disability. Actuarial gains or losses on the accrued benefit obligation are amortized over the average expected period the benefits will be paid.

Early retirement plans

The cost of providing accumulating post employment benefits under the University's early retirement plans is charged to expense over the period of service provided by the employee. The cost of these benefits is actuarially determined using the projected benefit method pro rated on services, a market interest rate and administration's best estimate of expected health care, dental care, life insurance costs and the period of benefit coverage. The excess of net actuarial gains or losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees expected to receive benefits under the plans.

j) Contributed services

Volunteers as well as members of the staff of the University contribute an indeterminable number of hours per year to assist the institution in carrying out its mission. Such contributed services are not recognized in the financial statements.

k) Fair value of financial instruments
The carrying values of financial assets and financial liabilities approximate fair value unless otherwise disclosed.

The University uses forward exchange contracts to manage its foreign exchange currency exposure on certain long-term investments. However, the University does not use forward exchange contracts or any other type of derivative financial instruments for trading or speculative purposes. These contracts do not qualify for hedge accounting treatment and as such are marked-to-market at the end of each reporting period, resulting in a gain or loss on the statement of operations.

3. Investments, cash and cash equivalents

Cash and cash equivalents and short-term investments are invested in high quality Canadian money market instruments.

The long-term investment portfolio includes endowment assets as well as the portion of non-endowment assets that will not be required for spending in the next five years. The primary objective of this portfolio is a rate of return that, in real terms, exceeds the endowment spending allocation at an acceptable risk level.

The carrying values of investments are as follows:

	2007	2006
Cash, money market funds, short-term notes and treasury bills	$ 299,041	$ 187,461
Canadian government and corporate bonds	280,781	269,892
Canadian equities	133,503	113,400
Foreign equities	463,236	396,823
Pooled hedge funds	23,877	21,142
Canadian common shares subject to restrictions	3,634	3,521
Annuities	98	101
Real estate	986	986
	1,205,156	993,326
Less amounts reported as:		
Cash and cash equivalents	245,704	165,142
Short-term investments	16,211	17,722
Total	$ 943,241	$ 810,462

Common shares subject to restrictions and real estate are recorded at cost, and have a fair value of $28,843 (2006 - $30,244). All other investments are carried at their fair value.

Investments consist of endowment funds (fair value of $750,026 (2006 - $638,476)) and non-endowment funds (fair value of $479,354 (2006 - $380,587)).

As at March 31, 2007, the average effective yields and the terms to maturity are as follows:

- Money market funds, short-term notes and treasury bills: 4.43% (2006 – 3.84%); term to maturity: less than one year.
- Government and corporate bond funds: 4.15% (2006 – 4.77 %) terms to maturity: range from less than one year to more than 10 years.

4. Investment income

	2007	2006
Income on investments held for endowment:		
Externally restricted	$ 64,998	$ 66,797
Internally restricted	4,930	8,122
	69,928	74,919
Income on other investments	23,903	19,534
Total investment income	93,831	94,453
Amounts deferred	(3,834)	(6,736)
Endowment income capitalized (externally restricted) (Note 11)	(32,536)	(34,954)
Total investment income recognized as revenue	$ 57,461	$ 52,763

5. Capital assets and collections

	2007			2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Buildings and utilities	$ 1,671,831	$ 619,887	$ 1,051,944	$ 1,503,033	$ 589,173	$ 913,860
Equipment and furnishings	776,655	501,091	275,564	739,747	466,728	273,019
Learning resources	223,831	126,270	97,561	207,633	109,945	97,688
Capital assets subject to amortization	2,672,317	1,247,248	1,425,069	2,450,413	1,165,846	1,284,567
Land	19,200	-	19,200	18,612	-	18,612
	2,691,517	$ 1,247,248	1,444,269	2,469,025	$ 1,165,846	1,303,179
Library permanent collections	35,500		35,500	34,400		34,400
Other permanent collections	58,069		58,069	57,070		57,070
Capital assets and collections	$ 2,785,086		$ 1,537,838	$ 2,560,495		$ 1,394,649

Included in buildings and utilities is $285,746 (2006 - $230,156) recorded as construction in progress, which is not amortized as the assets are not yet available for use.

Acquisitions during the year included in-kind contributions (such as library materials and equipment) in the amount of $12,516 (2006 - $7,940).

The University has recorded a liability for an asset retirement obligation of $947 (2006 - $893). The asset retirement obligation represents the legal obligation associated with the eventual decommissioning of a research reactor. The University has also identified other asset retirement obligations, primarily asbestos, for which the fair value cannot be reasonably estimated due to the indeterminable timing and scope of the asset retirements. The University is currently undergoing a review to determine the potential asset retirement obligation for asbestos removal. The asset retirement obligations for these assets will be recorded in the period in which there is sufficient information to estimate fair value.

An adjustment was made to two building acquisitions that previously did not allocate a portion of the acquisition to land; this adjustment is reflected in the 2006 amounts ($7,258), in the above table. This amount was also adjusted in unamortized deferred capital contribution (note 10) and investment in capital assets and collections (note 12).

The library research materials useful life was changed, resulting in an estimated $6,800 increase in amortization expense. The change in estimate from 40 years to 10 years reflects a more appropriate useful life. The University also combined library research materials and library materials into the learning resources category.

6. Employee benefit liabilities

	Academic staff	Support staff	Total 2007	Total 2006
Vacation pay	$ 6,300	$ 17,300	$ 23,600	$ 30,250
Long-term disability plans	8,382	20,504	28,886	31,779
Early retirement plans	1,801	19,253	21,054	20,058
	16,483	57,057	73,540	82,087
Less current portion	9,683	21,504	31,187	37,839
	$ 6,800	$ 35,553	$ 42,353	$ 44,248

Due to a change in estimation, the vacation pay liability for academic staff calculated for 2007 is lower than in the previous year; the estimated impact of this change is $8,300. The University revised its estimate of the number of vacation days taken and the result is an overall reduction in the number of vacation days outstanding.

7. Pension benefit plans, long-term disability and early retirement plans

a) Pension benefit plans

The University participates with other employers in the Public Service Pension Plan (PSPP) and the Universities Academic Pension Plan (UAPP). These pension plans are multi-employer defined benefit plans that provide pensions for the University's participating employees based on years of service and earnings. The pension expense recorded in these financial statements is equivalent to the University's actuarially determined contributions of $41,139 (PSPP - $13,091; UAPP - $28,048) for the year ended March 31, 2007 (2006 - $36,391 (PSPP - $11,083: UAPP - $25,308)).

The PSPP is a contributory defined benefit pension plan for support staff members. At December 31, 2006, the PSPP reported an actuarial surplus of $153,024 (2005 - $187,704 deficiency). An actuarial valuation of the PSPP was carried out as at December 31, 2005 and was then extrapolated to December 31, 2006.

The UAPP is a contributory defined benefit pension plan for academic staff members. At December 31, 2006, the UAPP reported an actuarial deficiency of $409,128 (2005 - $537,415) consisting of a pre-1992 deficiency ($399,521) and a post-1991 deficiency ($9,607). An actuarial valuation of the UAPP was carried out as at December 31, 2004 and was then extrapolated to December 31, 2006. The unfunded liability for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2005 - 1.25%) of salaries by the Province of Alberta. Employees and employers equally share the balance of the contributions of 2.28% (2005 – 2.28%) of salaries required to eliminate the unfunded liability by December 31, 2043. The actuarial valuation shows that the present value at December 31, 2004 of the Province of Alberta's obligation for the future additional contributions was $183,400. The unfunded liability for service after December 31, 1991 is financed by special payments of 2.64% (2005 – 2.64%) of salaries shared equally between employees and employers until December 31, 2017. The special payments will decrease to 1.38% of pensionable earnings on January 1, 2018 and continue until December 31, 2019. At December 31, 2006, the University's active membership in the UAPP is 48.6% of the total UAPP active membership. The University's share of the $409,128 unfunded liability projected to March 31, 2007 is estimated at $57,400 ($55,800 for pre-1992 service and $1,600 for post-1991 service).

b) Long-term disability and early retirement plans

The University's long-term disability plans (academic and support staff) and early retirement plans (support staff) are defined benefit plans that provide post-employment benefits to its employees. These defined benefit plans, unlike the pension benefit plans, are unfunded, meaning that there is no corresponding asset set aside to pay for the plans.

The long-term disability plans provide pension and non-pension benefits after employment, but before the employee's normal retirement date.

The early retirement plans for support staff include bridge benefits and a retirement allowance. The bridge benefit plan allows eligible employees who retire early, to continue participating in several staff benefit programs between the date of early retirement and the end of the month in which the employee turns 65. Benefits include group life insurance, Alberta Health Care, supplementary health care and dental care. The support staff retirement allowance provides eligible employees one week's base pay per full year of employment to a maximum 25 days pay.

7. Pension benefit plans, long-term disability and early retirement plans (continued)

The early retirement plan for academic staff was for bridge benefits and was terminated in 2004. This plan allowed eligible employees who retired early to continue participating in several staff benefit programs between the date of early retirement and the date of normal retirement. Participants already receiving these benefits when the plan was terminated will continue to receive bridge benefits under the original terms of the plan.

The University measures its accrued benefit obligations for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the employee future benefit plans was as at March 31, 2007.

The defined benefit plan obligations are as follows:

	2007		2006	
	Long-term disability	Early retirement	Long-term disability	Early retirement
Accrued benefit obligation:				
Balance, beginning of year	$ 18,149	$ 24,859	$ 18,565	$ 24,925
Current service cost	2,512	1,197	1,887	1,151
Interest cost	849	1,132	938	1,256
Benefits paid	(3,581)	(1,779)	(3,402)	(1,914)
Actuarial (gain) loss	14	1,096	161	(559)
Balance, end of year	17,943	26,505	18,149	24,859
Plan assets [1]	-	-	-	-
Funded status - plan deficit	17,943	26,505	18,149	24,859
Unamortized net actuarial gain (loss)	10,943	(5,451)	13,630	(4,801)
Accrued benefit liability (Note 6)	$ 28,886	$ 21,054	$ 31,779	$ 20,058

[1] These defined benefits are unfunded, meaning there are no corresponding assets set aside for these plans.

The significant actuarial assumptions used to measure the University's accrued benefit obligations are as follows:

	Long-term disability	Early retirement
Discount rate	4.6%	4.6%
Rate of compensation increase (year 1, years 2 to 4, thereafter) (includes cost of living allowance and merit increments)	not applicable (n/a)	5%, 6%, 5%
Assumed benefit cost trend rates:		
Dental costs (years 1 to 4, thereafter)	n/a	7%, 5%
Supplemental health care costs (years 1 to 4, thereafter)	n/a	10%, 7%
Alberta health care costs (years 1 to 4, thereafter)	n/a	2%, 3%
Existing long-term disability claims (year 1, years 2 to 4, thereafter)	3%, 4%, 3%	n/a
Pension contributions - academic staff (year 1, year 2, years 3 to 4, thereafter)	3%, 12%, 4%, 3%	n/a
Pension contributions - support staff (year 1, years 2 to 4, thereafter)	12%, 4%, 3%	n/a
Benefit costs (years 1 to 4, thereafter)	8%, 6%	n/a

8. Long-term obligations

	Collateral	Maturity date	Interest rate %	Amount outstanding	
				2007	2006
Mortgages payable to Canada Mortgage and Housing Corporation:					
Lister Residences	Title to land, building	July 2014	5.125	$ 1,112	$ 1,234
Michener Park Phase I	Title to land, building	April 2018	5.875	2,256	2,397
MacKenzie Hall	Title to land, building	November 2018	6.250	1,208	1,277
Debenture payable to Alberta Finance:					
Housing Union Building	None	June 2008	3.285	513	909
Debentures payable to Alberta Capital Finance Authority:					
Saville Centre	Cash flows, Saville Centre	December 2006	3.875	-	156
Natural Resources Engineering Facility (NREF)	Cash Flows, NREF Facility	June 2007	4.088	8,000	8,000
Enterprise Square	Title to land, building	October 2011	4.162	6,000	-
Natural Resources Engineering Facility	Cash Flows, NREF Facility	June 2014	4.974	12,704	14,071
Energy Management Program, Year 1	None	September 2014	4.551	2,767	3,070
Energy Management Program, Year 2	None	March 2016	4.525	3,607	3,925
Extension Centre	None	October 2017	8.750	2,192	2,308
Steam Turbine Generator	Equipment, cash flows	May 2020	6.250	13,803	14,411
Newton Place	Title to land, building	August 2024	6.000	13,531	13,944
Newton Place Renovation	Title to land, building	August 2024	6.000	2,340	2,411
Lister Residence II	Title to land, building	November 2027	5.875	19,930	21,643
Windsor Car Park	Cash flows, Windsor Car Park	September 2028	6.000	6,500	6,641
Saville Centre	Cash flows, Saville Centre	December 2028	5.875	4,282	4,376
East Campus Village	Title to land, building	March 2029	4.960	8,874	9,093
Centennial Centre for Interdisciplinary Science Phase I	None	September 2029	5.353	9,486	9,700
Centennial Centre for Interdisciplinary Science Phase I	None	June 2030	4.518	2,087	2,136
Killam Centre	None	September 2036	4.810	2,072	-
Enterprise Square	Title to land, building	September 2036	4.627	39,000	-
Bank loans payable:					
East Campus Housing	None	September 2008	4.440	428	698
				162,692	122,400
Obligations under capital leases				916	2,318
Other long-term obligations (includes asset retirements and liabilities for site restoration)				2,747	2,693
				166,355	127,411
Less current portion				14,811	5,574
				$ 151,544	$ 121,837

The principal portion of long-term debt repayments required over the next five years is as follows:
2008 - $14,811; 2009 - $7,427; 2010 - $7,551; 2011 - $7,947; 2012 - $8,363
The estimated fair value for mortgages, debentures and loans payable as at March 31, 2007 is $173,421 (2006 - $128,270).
Interest expense on long-term obligations is $8,022 (2006 - $7,182).
The weighted average interest rate is 5.264%. (2006 – 5.533%).

9. Deferred contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balances are as follows:

	2007			2006
	Capital	Research and other	Total	Total
Balance, beginning of the year	$ 3,348	$ 269,128	$ 272,476	$ 291,001
Grants and donations received	124,889	512,328	637,217	561,239
Recognized as revenue	-	(418,653)	(418,653)	(405,284)
Transferred to unamortized deferred capital contributions (Note 10)	(117,736)	(31,038)	(148,774)	(174,480)
Balance, end of the year	10,501	331,765	342,266	272,476
Less amounts included in current liabilities	-	241,765	241,765	179,128
	$ 10,501	$ 90,000	$ 100,501	$ 93,348

Included in "research and other" category are grants and donations of $31,038 (2006 - $39,950) used for capital acquisitions.

10. Unamortized deferred capital contributions

Deferred capital contributions represent the unamortized grants and donations received to fund capital acquisitions. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

	2007	Restated (Note 18) 2006
Balance, beginning of the year	$ 885,231	$ 763,134
Additions from deferred contributions (Note 9)	148,774	174,480
Amortization to revenue	(51,874)	(52,383)
Balance, end of the year	$ 982,131	$ 885,231

11. Endowments

Endowments consist of:

- Internal allocations by the Board of Governors (internally restricted).
- Restricted donations to the University - the principal must be maintained intact in perpetuity (externally restricted).

The investment income earned on internally restricted endowments is used to fund research and other activities of importance to the University as directed by Board of Governors' resolutions. The internally restricted endowments were created from the proceeds received in prior years from the sale of University land and from other sources. The purpose of the internally restricted endowments cannot be changed without approval of the Board of Governors.

Investment income earned on endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. Benefactors as well as University policy stipulate that the economic value of the externally restricted endowments must be protected by limiting the amount of income that may be expended and reinvesting unexpended income. Under the *Post-Secondary Learning Act*, the University has the authority to alter the terms and conditions of externally restricted endowments to enable income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, the spending allocation is funded from the cumulative capitalized income. However, for individual endowment funds without sufficient cumulative capitalized income, endowment principal is used in that year. This amount is expected to be recovered by future investment income.

	2007			2006		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Cumulative contributions	$ 382,215	$ 14,634	$ 396,849	$ 290,874	$ 19,250	$ 310,124
Cumulative capitalized income	314,119	40,510	354,629	281,583	48,436	330,019
	$ 696,334	$ 55,144	$ 751,478	$ 572,457	$ 67,686	$ 640,143

During the year the University capitalized $32,536 (2006 - $34,954) of investment income related to externally restricted endowments. A portion of this amount was added to externally restricted endowments through the authority provided to the University under the *Post-Secondary Learning Act.* The University intends that this portion be maintained in perpetuity.

The University approved a transfer of $2,145 (2006 – $24,634) from unrestricted net assets to internally restricted endowment net assets, which represents the current year's investment income in excess of the spending allocation. In 2006, the University transferred the 2006 investment income in excess of the spending allocation ($4,513) as well as prior years' endowment income that the University was unable to capitalize when earned due to the net assets deficiency ($20,121).

The Board of Governors approved the permanent endowment of the Endowment Fund for the Future – Henry Marshall Tory Chairs and transferred $14,687 (2006 - $0) from internally restricted endowments to externally restricted endowments. The Board of Governors also approved to permanently endow other unrestricted funds and transferred $5,469 (2006 - $0) from unrestricted net assets to externally restricted endowments.

The University received matching grant funds of $5,000 (2006 - $0) from the Province of Alberta's Access to the Future Fund. These funds were then capitalized from deferred contributions to externally restricted endowments. Cumulative contributions includes a grant of $24,500 (2006 - $1,000) from the Province of Alberta for the China Institute Endowment.

12. Investment in capital assets and collections

Net assets invested in capital assets and collections represent the carrying amount (net book value) of capital assets and collections less unamortized deferred capital contributions and any related debt.

	2007	Restated (Note 18) 2006
Capital assets and collections at net book value (Note 5)	$ 1,537,838	$ 1,394,649
Less amounts financed by:		
Unamortized deferred capital contributions (Note 10)	(982,131)	(885,231)
Long-term debt related to capital expenditures	(145,289)	(121,777)
Investment in capital assets and collections, end of year	$ 410,418	$ 387,641

	2007	2006
The changes during the year are as follows:		
Investment in capital assets and collections, beginning of year	$ 387,641	$ 347,647
Acquisition of capital assets and collections (Note 13)	91,997	66,426
Repayment of long-term debt	7,177	6,638
Long-term debt, new financing	(30,689)	(3,830)
Net book value of asset disposals	(1,115)	(2,306)
Amortization of investment in capital assets	(46,172)	(35,569)
Net investment in capital assets	21,198	31,359
Contributions of assets not subject to amortization	1,579	8,635
Increase for the year	22,777	39,994
Investment in capital assets and collections, end of year	$ 410,418	$ 387,641

13. Interim internal financing of acquisition of capital assets

The University, on a temporary basis, is funding two capital projects from internal sources. Included in acquisition of capital assets and collections is $14,067 (2006 - $22,574) of construction in progress capital expenditures. The $14,067 is comprised of $36,641 which is the internal financing required for this year's expenditures less the prior year's internal financing of $22,574 (which was received in 2007). The University has reasonable assurance that funding for these capital projects will be received from the Province of Alberta in future years, and this funding is typically received within one year.

14. Contingent liabilities and commitments

a) The University is a defendant in a number of legal proceedings. While the ultimate outcome and liability of these proceedings cannot be reasonably estimated at this time, the University believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the University. Administration has concluded that none of the claims meet the criteria for being recorded under GAAP.

b) Academic staff members are entitled to a professional expense allowance, enabling them to incur expenditures for their teaching, research, professional, or general University duties. At March 31, 2007 approximately $7,955 (2006 - $6,897) of such allowances is committed for expenditures not yet incurred.

c) The University is one of 56 members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability, and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2006 CURIE had a surplus of $16,507 (2005 - $11,175). This surplus is an accumulation of four different underwriting periods. The University participates in three of the underwriting periods, which have an accumulated surplus of $13,517 (2005 - $8,327) of which the University's pro rata share is approximately 6.74% (2005 – 6.79%). This surplus is not recorded in the financial statements.

d) At March 31, 2007 the University has contractual commitments for capital projects greater than $1 million of approximately $656,000 (2006 – approximately $765,000).

e) On March 31, 2005 the University renewed their 5 year agreement for information technology support with an external party. The cost of $25,351 over the remaining three years provides for manager application support services.

f) In order to manage its exposure to the volatility in the electrical industry, the University has entered into contracts to fix a portion of its electrical cost at an average of $61.54 per megawatt hour. The four contracts totaling $138,828 (2006 - $76,717) expire on December (2007, 2010, 2012, 2016).

15. Related party transactions

The University operates under the authority and statutes of the Province of Alberta. Transactions between the University and the Province of Alberta are summarized below.

	2007	2006
Advanced Education:		
Operating grant	$ 403,643	$ 356,072
Enrolment planning envelope grants	28,489	16,269
Performance envelope award	5,091	4,999
Access to the future fund (matching grants)	5,000	-
Alberta Innovation and Science	26,978	23,247
Other (includes capital grants for Infrastructure paid by Advanced Education and Technology)	115,592	59,435
Total Advanced Education	584,793	460,022
Other provincial departments, and agencies:		
Alberta Health and Wellness	43,021	27,448
Alberta Foundation for Medical Research	25,751	23,067
Alberta Ingenuity Fund	14,330	6,188
Alberta Infrastructure and Transportation	3,703	48,673
Other	10,137	11,294
Total other provincial departments and agencies	96,942	116,670
Total contributions received	681,735	576,692
Less: deferred contributions	(104,468)	(58,413)
Revenue from Province of Alberta	$ 577,267	$ 518,279

The University of Alberta has accounts receivable from the Province of Alberta of $34,162 (2006 - $31,815) and accounts payable to the Province of Alberta of $635 (2006 - $522). The Province of Alberta has provided $24,500 (2006 - $1,000) in matching grants for externally restricted endowment contributions during the year, which is included in endowment net assets.

These transactions are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

16. Budget comparison

	Actual	Budget	Variance
Revenue:			
Government	$ 724,434	$ 644,482	$ 79,952
Credit course tuition and related fees	181,880	182,382	(502)
Sales of services and products	181,741	179,230	2,511
Grants, donations and investment income	117,805	102,516	15,289
	1,205,860	1,108,610	97,250
Amortization of deferred capital contributions	51,874	75,243	(23,369)
	1,257,734	1,183,853	73,881
Expense:			
Salaries	597,486	584,422	13,064
Employee benefits	104,202	106,783	(2,581)
Materials, supplies, services and other expenses	392,155	387,517	4,638
Amortization of capital assets	98,046	103,850	(5,804)
	1,191,889	1,182,572	9,317
Excess of revenue over expense	$ 65,845	$ 1,281	$ 64,564

17. Salary and employee benefits

A Treasury Board Directive under the *Financial Administration Act* of the Province of Alberta requires the disclosure of certain salary and employee benefits information.

	2007				Restated 2006
	Base salary [1]	Other cash benefits [2]	Other non-cash benefits [3]	Total	Total
Governance [4]					
Chair of the Board of Governors	$ -	$ -	$ -	$ -	$ -
Members of the Board of Governors	-	-	-	-	-
Executive					
President [5]	414	-	177	591	778
Vice-Presidents:					
Provost and Vice-President Academic	336	54	209	599	505
Vice-President Research	219	56	78	353	356
Vice-President Finance and Administration	331	-	124	455	582 [3a]
Vice-President External Relations [6]	225	-	82	307	72
Vice-President Facilities and Operations	325	-	134	459	588 [3a]

The prior year has been restated to include prior service costs for the supplementary retirement plan.

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include salary supplements, honoraria, administrative stipend and research grants in lieu of salary.

(3) Other non-cash benefits include the University's share of all employee benefits and contributions or payments made on behalf of employees including pension, group life insurance, supplementary health care, short and long-term disability plans, dental plan, supplemental pension plans (per footnote (7)), accidental disability and dismemberment. Benefits for some of the executive also include professional leave, car allowance and memberships. In recognition that the University uses the President's home for various University functions, the University pays for certain costs for the general operation of her home determined in accordance with a contractual arrangement entered into by the President and the University. Included in non-cash benefits is the President's taxable benefit portion (46%) of these costs.

(3a) In the prior year, certain individuals became eligible for a six month professional leave. Included in non-cash benefits for the prior year is the equivalent of six months salary for Vice-President Finance and Administration ($154) and Vice-President Facilities and Operations ($151).

(4) The Chair and Members of the Board of Governors receive no remuneration for participation on the Board.

(5) Two individuals held this position in 2006.

(6) The External Relations portfolio was filled on July 1, 2006.

(7) Under the terms of the supplementary retirement plan (SRP), the executive may receive supplemental retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post employment period. The SRP provides future pension benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, and management's best estimate of expected costs and the period of benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the current year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

	2007			2006
	Current service cost	Prior service and other costs	Total	Total
Executive				
President	$ 103	$ 7	$ 110	$ 319
Vice-Presidents:				
Provost and Vice-President Academic	116	31	147	90
Vice-President Research	47	8	55	78
Vice-President Finance and Administration	65	11	76	103
Vice-President External Relations	39	-	39	-
Vice-President Facilities and Operations	69	11	80	107

The accrued obligation of each executive under the SRP is outlined in the following table:

	Accrued obligation March 31, 2006	Changes in accrued obligation	Accrued obligation March 31, 2007
Executive			
President	$ 77	$ 102	$ 179
Vice-Presidents:			
Provost and Vice-President Academic	321	82	403
Vice-President Research	82	44	126
Vice-President Finance and Administration	114	74	188
Vice-President External Relations	-	44	44
Vice-President Facilities and Operations	120	76	196

18. Prior period adjustment

In prior years, the amortization calculation on unamortized deferred capital contributions for equipment was calculated incorrectly. The calculation error occurred in 2001 and carried forward to the current year. This adjustment has been applied retroactively with restatement of prior years' amounts. The effect of the adjustment to the 2006 financial statements is presented in the following table:

	2006		
	As previously reported	Prior period adjustment	As restated
Statement of Financial Position			
Increase (decrease) in:			
Unamortized deferred capital contributions	$ 861,023	$ 24,208	$ 885,231
Investment in capital assets	411,849	(24,208)	387,641
Statement of Operations			
Increase (decrease) in:			
Amortization of deferred capital contributions	58,778	(6,395)	52,383
Net investment in capital assets	(37,754)	6,395	(31,359)
Statement of Cash Flows			
Increase (decrease) in:			
Excess of revenue over expense	57,319	(6,395)	50,924
Amortization of deferred capital contributions	(58,778)	6,395	(52,383)

	2005		
	As previously reported	Prior period adjustment	As restated
Statement of Changes in Net Assets			
Increase (decrease) in:			
Investment in capital assets	$ 365,460	$ (17,813)	$ 347,647

An adjustment ($7,258) was also made to two building acquisitions that previously did not allocate a portion of the acquisition to land. This adjustment is reflected in the applicable previously reported amounts in the table above (refer to note 5).

19. Comparative figures

Certain 2006 figures have been reclassified to conform to the presentation adopted in the 2007 financial statements.

UNIVERSITY OF CALGARY
Financial Statements

For the year ended March 31, 2007

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Revenue and Expense
- Statement of Changes in Net Assets
- Statement of Cash Flow
- Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the University of Calgary

I have audited the consolidated statement of financial position of the University of Calgary as at March 31, 2007 and the consolidated statements of revenue and expense, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 31, 2007

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2007
(thousands of dollars)

UNIVERSITY OF CALGARY

ASSETS

	2007	2006 (restated note 21)
CURRENT ASSETS		
Cash and cash equivalents (note 3)	$ 227,685	$ 154,329
Investments (note 3)	107,775	94,241
Accounts receivable	98,550	82,323
Inventories	5,713	5,934
Prepaid expenses	3,677	4,283
	443,400	341,110
LONG-TERM INVESTMENTS (note 4)	386,296	360,047
OTHER LONG-TERM ASSETS (note 5)	32,342	29,249
CAPITAL ASSETS AND COLLECTIONS (note 6)	749,690	711,512
	$ 1,611,728	$ 1,441,918

LIABILITIES AND NET ASSETS

	2007	2006 (restated note 21)
CURRENT LIABILITIES		
Accounts payable	$ 69,280	$ 74,110
Deferred revenue	15,879	16,116
Deferred contributions, research and other (note 7)	248,439	235,064
Current portion of long-term liabilities (note 9)	2,886	5,623
	336,484	330,913
DEFERRED CAPITAL CONTRIBUTIONS (note 7)	60,774	17,316
LONG-TERM LIABILITIES (note 9)	28,021	24,457
UNAMORTIZED DEFERRED CAPITAL CONTRIBUTIONS (note 8)	510,559	475,447
NET ASSETS		
Restricted for endowment purposes (note 11)	437,175	364,128
Investment in capital assets and collections (note 12)	214,190	212,640
Internally restricted (note 13)	26,327	27,301
Unrestricted (note 22)	(1,802)	(10,284)
	675,890	593,785
	$ 1,611,728	$ 1,441,918

Commitments and contingencies (note 18)

Signed on behalf of the Board of Governors:

Board Chair

Vice-President (Finance & Services)

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED MARCH 31, 2007
(thousands of dollars)

	2007	2006
REVENUE		
Government of Alberta grants (note 19)	$ 365,253	$ 337,099
Other government grants	91,468	77,187
Donations and other grants	78,802	67,949
Credit tuition and related fees	121,716	120,319
Non-credit tuition and related fees	15,775	13,706
Sales of services and products	81,507	74,745
Amortization of deferred capital contributions (note 8)	47,516	38,910
Investment income (note 14)	24,871	32,359
	$ 826,908	$ 762,274
EXPENSE		
Salaries	410,475	378,168
Benefits	63,924	59,869
Materials, supplies and services	141,064	125,203
Amortization of capital assets	73,255	66,654
Utilities	24,495	24,294
Scholarships, grants and awards	41,969	37,578
Travel	23,289	21,478
Cost of goods sold	16,423	15,734
Maintenance and repairs	16,785	10,702
Financing	1,597	1,627
	813,276	741,307
EXCESS OF REVENUE OVER EXPENSE (note 16)	$ 13,632	$ 20,967

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2007
(thousands of dollars)

UNIVERSITY OF CALGARY

	Restricted for Endowment Purposes (note 11)	Investment in Capital Assets & Collections (note 12)	Internally Restricted (note 13)	Unrestricted (note 22)	2007 Total	2006 Total
NET ASSETS, beginning of year, restated note 21	$ 364,128	$ 212,640	$ 27,301	$ (10,284)	$ 593,785	$ 521,443
Excess of revenue over expense	-	-	-	13,632	13,632	20,967
Amortization of internally funded capital assets	-	(25,733)	8	25,725	-	-
Expenditure of Internally Restricted net assets	-	-	(437)	437	-	-
Purchase and contribution of capital assets	-	35,875	(622)	(34,851)	402	98
Capital assets transferred to Unamortized Deferred Capital Contribution	-	(6,364)	-	6,364	-	-
Transfer to long-term debt	-	(5,634)	-	5,634	-	-
Repayment of long-term debt	-	3,406	-	(3,406)	-	-
Board transfers	2,371	-	126	(2,497)	-	-
Transfers for endowment expenditures	(13,329)	-	-	14	(13,315)	(12,685)
Investment gain (loss) on endowments	48,597	-	(4)	(1,371)	47,222	41,219
Contributions	35,408	-	(45)	(1,199)	34,164	22,743
NET ASSETS, end of year	$ 437,175	$ 214,190	$ 26,327	$ (1,802)	$ 675,890	$ 593,785

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2007
(thousands of dollars)

	2007	2006
CASH PROVIDED FROM (USED IN):		
OPERATING ACTIVITIES		
Excess of revenue over expense	$ 13,632	$ 20,967
Items not affecting cash flow:		
Amortization of capital assets	73,255	66,654
Amortization of deferred capital contributions	(47,516)	(38,910)
Loss(Gain) on non-endowed & internally endowed investments	1,525	(10,274)
Net change in non-cash working capital*	(20,626)	57,699
	20,270	96,136
INVESTING ACTIVITIES		
Purchase of capital assets	(111,433)	(112,653)
Contribution of non-amortizable assets	402	98
Increase in other long-term assets	(3,093)	(12,002)
Proceeds of long-term investments, net	(9,935)	(28,968)
Gain on externally endowed investments	(17,839)	(22,460)
	(141,898)	(175,985)
FINANCING ACTIVITIES		
Endowment contributions	34,164	22,743
Capital contributions	126,086	85,115
Net increase (decrease) in long-term liabilities	827	(29,857)
Market value increase of external endowments	17,839	22,460
Excess of investment revenue over expenditures capitalized to endowments	16,068	6,086
	194,984	106,547
INCREASE IN CASH AND CASH EQUIVALENTS	73,356	26,698
CASH AND CASH EQUIVALENTS, beginning of year	154,329	127,631
CASH AND CASH EQUIVALENTS, end of year (note 3)	$ 227,685	$ 154,329

***Net change in non-cash working capital:**	2007	2006
(Increase) Decrease in Investments	$ (13,534)	$ 6,192
Increase in Accounts receivable	(16,227)	(19,279)
Decrease (Increase) in Inventories	221	(246)
Decrease (Increase) in Prepaid expenses	606	(893)
Decrease in Accounts payable	(4,830)	(4,889)
Decrease in Deferred revenue	(237)	(1,216)
Increase in Deferred contributions, research and other	13,375	78,030
	$ (20,626)	$ 57,699

The accompanying notes are part of these consolidated financial statements.

Note 1 Authority and Purpose

The University of Calgary ("the University") operates under *The Post-Secondary Learning Act*. It is a Board-governed, comprehensive research University offering undergraduate and graduate degree programs as well as a full range of continuing education programs and activities. The University is a registered charity, and under Section 149 of the *Income Tax Act*, is exempt from the payment of income tax. The tax exemption does not extend to its wholly-owned subsidiary, University Technologies International Inc.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) General

The financial statements of the University have been prepared in accordance with Canadian generally accepted accounting principles, known as GAAP. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using judgments determined by the University's administration. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

(b) Consolidated Statements

The financial statements are prepared on a consolidated basis and include:

- the combined accounts of University Technologies Group consisting of:
    - University Technologies International Inc. (UTI),
    - University Technologies International Limited Partnership (UTI LP), a limited partnership held in trust by the University,
    - UTI LP's wholly owned subsidiaries,
- the accounts of The Arctic Institute of North America (AINA), a non-profit organization controlled by the University.

UTI LP opera[illegible] acilitate the transfer of intellectual property from the University to private business. AINA operates under the authority of the Act of the Federal Parliament (9-10 George VI, Chapter 45) to initiate, encourage and support northern research and to advance the study of arctic conditions and problems.

(c) Revenue Recognition

The financial statements record the following items as revenue – at the following times:

- Operating grants – when received or receivable, or, where a portion of the grant relates to a future period, it is deferred and recognized in the subsequent period.
- Unrestricted contributions - when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- Unrestricted investment income - when earned.
- Tuition fees – when the instruction is delivered.
- Revenues received for sales of services and products - when the services are substantially provided or the products are delivered.
- Donations of materials and services – recorded at fair value when a fair value can be reasonably determined and when materials and services would otherwise have been purchased.
- Pledges - when collected.
- Restricted contributions and grants - based on the deferral method as summarized below:

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Restricted contributions – deferral method

Contributions, including investment income on the contributions, that are restricted for purposes other than endowment or the acquisition of capital assets, are deferred and recognized as revenue when the conditions of the contribution are met.

Contributions to acquire capital assets with a limited life are first recorded as deferred capital contributions when received, until the contribution is invested in capital assets. When expended, amounts representing funded capital assets are then transferred to unamortized deferred capital contributions and amortized as deferred capital contributions in the periods in which the related amortization expense of the funded capital asset is recognized.

Contributions restricted to the acquisition of land and permanent collections are first recorded as deferred contributions when received, and when expended, they are recognized as direct increases in capital assets and collections.

Endowment contributions, including investment earnings, are recognized as direct increases in endowment net assets. Investment earnings, under agreements with benefactors or *The Post-Secondary Learning Act* allocated to endowment principal, are also recognized as direct increases in endowment net assets. Endowment investment earnings that are allocated for spending are deferred and recognized as revenue when the conditions of the endowment are met.

(d) Investments

Short-term investments are recorded at the lower of cost or market.

Long-term investments are recorded at fair market value, except for investments in joint venture and common shares subject to restrictions, which are recorded at cost. Fair market value for marketable securities is determined based on the current quoted market price of the underlying asset. Changes in market values from one period to the next are included in the investment income (loss) for the period (note 14). Such investment income (loss) is included in revenue in accordance with the University's revenue recognition policies (note 2c).

(e) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Cost is determined on a weighted moving average basis.

(f) Patents

Patents are recorded at cost and include acquisition and maintenance costs. The carrying value of patents related to a project is limited to the estimated future net cash flows expected to be derived from the project. Patent costs in excess of estimated future net cash flows are written off.

Patents are amortized on a straight-line basis over a 10 year estimated useful life.

(g) Capital Assets and Collections

Capital assets purchased are recorded at cost. In-kind contributions are recorded at fair market when a fair value can be reasonably determined. Permanent collections are not amortized and include that portion of library assets with permanent value and works of art held for education and public exhibition purposes.

Buildings, plant and site improvements include construction in progress. The costs of buildings under construction are not amortized until construction is substantially complete and the assets are ready for productive use.

The fair value of a liability for an asset retirement obligation is recognized in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the asset and amortized over its estimated useful life.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Software development is not amortized until development is complete and the assets are ready for productive use.

Amortization is recorded on a straight-line basis over the estimated useful lives of the capital assets, as follows:

- Buildings and plant	40 years
- Site improvements	20 years
- Telecommunication equipment, furnishings and library acquisitions	10 years
- Equipment	6 years, average
- Software	3 years

(h) Employee Future Benefits

The University participates with other employers in the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees based on years of service and earnings. Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits payable under the respective pension plans. The University does not record the University's portion of the pension plans' deficit or surplus.

The University has a number of defined benefit plans providing long-term disability, early retirement incentives and pension benefits. The early retirement plans were available to employees from 1992 to 1998. The cost of these benefits is actuarially determined using the projected benefit method pro rated on service, a market interest rate and management's best estimate of the retirement ages of employees, expected health care costs and the terms of employee disability agreements. With respect to employees on long-term disability, actuarial gains and losses are amortized over the average expected term of the payments. With respect to the early retirement incentive plan, actuarial gains and losses are recognized immediately. With respect to the supplemental pension obligation, for each plan participant, the balance of actuarial gains and losses in excess of 10% of the accrued benefit obligation is amortized over the expected service lifetime.

(i) Credit, Interest Rate and Market Risk

The University's accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

The interest rate risk is the risk to the University's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates.

The market risk is the risk to the University's earnings that arises from the fluctuations and degree of volatility in the market value of its long-term investments.

(j) Financial Instruments

The carrying value of financial assets and financial liabilities are considered to approximate fair value unless otherwise disclosed.

Note 3 Cash and Cash Equivalents and Investments

				2007		2006
	Cash & Cash Equivalents [1]	Current Investments [2]	Total Cost	Total Market [3]	Total Cost	Total Market
Money market investments	$ 239,672	$ -	$ 239,672	$ 239,672	$ 145,447	$ 145,447
Bank balances [4]	(11,987)	-	(11,987)	(11,987)	8,882	8,882
Bonds [5]	-	79,309	79,309	79,484	77,011	77,051
Shares	-	682	1,242	682	1,242	1,242
Mortgage fund	-	27,784	27,784	27,784	15,988	15,988
Balance, end of year	$ 227,685	$ 107,775	$ 336,020	$ 335,635	$ 248,570	$ 248,610
Total, 2006	$ 154,329	$ 94,241	$ 248,570	$ 248,610		

(1) Money market investments are purchased at a discount. The University Investment Policy states these investments must be rated R-1 low or better (rated by Dominion Bond Rating Service). At March 31, 2007 the investments held have an average effective yield of 4.35% (2006 – 3.82%) and will mature within 45 days (2006 – 38 days). The University of Calgary invests in an externally managed money market fund with an average yield for 2007 of 4.19% (2006 – 3.45%). The combined average realized return on money market investments for 2007 was 4.27% (2006 – 3.61%).

(2) Current investments consist primarily of bonds that have a maximum allowable term of nine years and stated interest ranging from 3.50% to 7.60% (2006 – 3.25% to 10.55%). All bonds have a rating of a single "A" or better. Effective yield for bonds is calculated based on carrying values at year-end and is disclosed on a weighted average basis using the duration method. For the Mortgage fund the average term to maturity is 4.9 years (2006 – 4.9 years). The weighted average amortization is 17.6 years (2006 – 16.4 years). The average yield to maturity for the Mortgage fund is 5.33% (2006 – 5.28%).

(3) Market value approximates fair value of investments.

(4) The bank overdraft is a temporary condition existing at year end and represents cheques issued by the University not yet cleared by the University's bank. Subsequent to year end, the majority of these cheques were presented for payment and cleared by the bank.

(5) The effective yields on bonds are as follows:

		2007		2006
	Effective Yield	Cost	Effective Yield	Cost
Current Investments - Bond Maturity				
0-2 years to maturity	3.55%	$ 15,885	4.69%	$ 12,209
2-5 years to maturity	4.86%	32,049	4.91%	27,017
> 5 years to maturity	6.43%	31,375	5.19%	37,785
Total		$ 79,309		$ 77,011

Note 4 Long-term Investments

	Annual Market Yield	2007	Annual Market Yield	2006 (restated note 21)
Money market investments		$ 1,131		$ 831
S&P/TSX index	**11.54%**	**8,625**	28.43%	8,633
Bond index	**5.52%**	**94,816**	4.85%	90,146
International index	**20.85%**	**82,925**	19.52%	70,930
S & P 500 index	**10.61%**	**5,654**	7.75%	55,538
Canadian shares	**13.40%**	**126,053**	26.57%	124,862
Real estate	-	-	-	8,770
U.S. shares	**9.23%**	**66,494**	-	4
British shares	-	-	-	16
Investment in joint venture	-	**598**	-	317
Balance, end of year		**$ 386,296**		$ 360,047

The University of Calgary Investment Committee, a subcommittee of the Board of Governors, has the delegated authority for the oversight of the University's investments. This committee is comprised of six voting members, which include two members of the Board of Governors and four members from the community appointed by the Board of Governors. Non-voting officials include the Vice-President (Finance and Services); the Treasurer and Director of Investments; General Counsel and Corporate Secretary. It meets on a quarterly basis during the year to monitor investments and to review the performance of the Investment Managers to ensure they are in compliance with the investment objectives and policies of the University. The Committee reports annually to the Board of Governors.

The University employs a mix of passive and active investment management strategies for long-term investments and an active management strategy for the short-term money market portfolio and short-term bond portfolio. For the long-term endowment portfolio the Investment Committee established the asset mix at 70% equity and 30% debt. Within the equity mix, the Investment Committee further sets out acceptable ranges for investment within the various funds (Canadian 30%, U.S. 20%, International 20%). The University employs a strict rebalancing policy to ensure the asset mix stays within the allowable range for each class.

The University of Calgary Investment Committee uses time-weighted rates of return in comparison to like funds or indexes to assess the performance of the Investment Managers. The University also reports the market values and time-weighted rates of return at December 31 each year to the Canadian Association of University Business Officers (CAUBO) Investment Survey. This survey compares and ranks the endowment funds of Canadian universities and is available to all Canadian universities.

Note 5 Other Long-term Assets

		2007		2006
Receivable from Alberta Heritage Foundation for Medical Research (1)	$	12,000	$	15,000
Capital lease receivable (2)		15,421		15,586
Other long-term assets (3)		13,680		780
Patents (4)		1,418		1,048
		42,519		32,414
Current portion in Accounts Receivable		(10,177)		(3,165)
Balance, end of year	$	32,342	$	29,249

(1) Funds to be received to cover capital costs already incurred on specific projects.

(2) The University and the Calgary Health Region entered into a 25-year agreement for the Region to lease space in the University Research Centre Building. This lease has been accounted for as a capital lease. The future minimum lease payments receivable for the next five fiscal years are as follows: 2008 - $1,318; 2009 - $1,356; 2010 to 2012 - $1,384 per year.

(3) Includes $13,000 due from the City of Calgary related to the disposition of real estate.

(4) The cost of patents is $2,564 (2006 - $2,077) and the accumulated amortization is $1,146 (2006 - $1,029). During the year patents with a net book value of $35 were written off (2006 - $136).

Note 6 Capital Assets and Collections

	2007			2006 (restated note 21)		
	Cost (3)	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Buildings, plant and site improvements (1) &(4)	$ 981,093	$ 435,750	$ 545,343	$ 910,485	$ 409,116	$ 501,369
Furnishings, equipment and systems (2)	439,040	314,741	124,299	419,988	286,720	133,268
Library books	147,584	109,947	37,637	138,220	103,933	34,287
Software	58,341	41,172	17,169	53,065	35,255	17,810
Land	14,058	-	14,058	14,058	-	14,058
Art collection	7,707	-	7,707	7,629	-	7,629
Rare books and archives collection	3,477	-	3,477	3,091	-	3,091
Balance, end of year	$ 1,651,300	$ 901,610	$ 749,690	$ 1,546,536	$ 835,024	$ 711,512

(1) Asset Retirement Obligations

The University has identified buildings with Asset Retirement Obligations for which the fair value cannot be reasonably estimated due to the indeterminate timing and scope of the asset retirements. The asset retirement obligations for these assets will be recorded in the period in which there is sufficient information to estimate fair value.

(2) Capital Leases

Included in furnishings, equipment and systems are assets under capital leases in the amount of $295 (2006 - $887). Accumulated amortization is $258 (2006 – $138) on these assets.

(3) Donated Assets

Capital acquisitions during the year included donations-in-kind in the amount of $4,347 (2006 - $16,342).

(4) Construction in progress

Included in buildings and utilities is $75,882 (2006 - $153,382) recorded as construction work in progress, which is not amortized as the assets are not yet available for use.

Note 7 Deferred Contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balance are as follows:

	2007		2006	
	Research & Other (1)	Capital	Research & Other (1)	Capital
Contributions received during the year:				
Government of Alberta grants	$ 80,903	$ 87,000	$ 129,593	$ 10,461
Other government grants	108,060	-	107,377	-
Sales	2,220	-	1,233	5
Donations & other grants	71,725	-	102,404	13,313
Investment income	14,966	347	6,884	84
	$ 277,874	$ 87,347	$ 347,491	$ 23,863
Less: transferred to revenue:				
Government of Alberta grants	$ 58,967	$ 3,021	$ 71,305	$ 260
Other government grants	89,935	-	76,929	-
Sales	2,216	-	1,233	5
Donations & other grants	60,225	-	60,415	28
Investment income	11,584	347	6,884	84
	$ 222,927	$ 3,368	$ 216,766	$ 377
Net change in accounts receivable	946	-	9,036	-
Transferred to unamortized deferred capital contributions (note 8)	(42,500)	(40,128)	(61,725)	(9,974)
Transferred to investment in capital assets	(10)	(393)	(2)	(96)
Transferred from restricted accounts	(8)	-	(3)	-
Increase during the year	$ 13,375	$ 43,458	$ 78,031	$ 13,416
Balance, beginning of year	235,064	17,316	157,033	3,900
Balance, end of year	$ 248,439	$ 60,774	$ 235,064	$ 17,316

(1) Includes research grants expended for capital and other purposes.

Note 8 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the externally funded portion of capital assets, which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contributions balance are as follows:

	2007	2006
Transfer from Deferred Contributions research & other (note 7)	$ 42,500	$ 61,725
Transfer from Deferred Contributions capital (note 7)	40,128	9,974
Amortized to revenue	(47,516)	(38,910)
Increase during the year	35,112	32,789
Balance, beginning of year	475,447	442,658
Balance, end of year (note 12)	$ 510,559	$ 475,447

Note 9 Long-term Liabilities

	Rate of Interest	Original Advance	2007	2006
* Debenture for Cascade Hall, due May 1, 2025	6.250%	$ 16,500	$ 14,462	$ 14,855
* Debenture for Human Performance Lab, due March 16, 2011	4.349%	4,100	3,349	4,100
Mortgage for University Research Centre, due April 1, 2012	0.000%	5,500	2,843	3,392
Financing for Administrative Renewal project, due June 30,2007	3.003%	3,657	399	1,852
* Debenture for Health Research Innovation Centre / Parkade, due April 13, 2031	4.935%	5,950	5,888	-
Mortgage for the Dining Centre, Kananaskis and Rundle Halls, due March 1, 2016	5.125%	2,165	854	928
* Debentures for Art Building, due December 15, 2006	9.75 % & 10%	11,700	-	1,235
* Debenture for Norquay, Brewster and Castle Halls, due January 15, 2007	9.750%	3,953	-	416
* Debenture for Car Park in MacEwan Student Centre, due October 1, 2006	9.750%	1,900	-	200
			27,795	26,978
Due to Alberta Heritage Foundation for Medical Research			220	223
Due to Western Economic Diversification Canada			660	390
Due to AVAC Ltd.			226	100
Minority interest in subsidiary companies			24	41
Obligation under capital leases			295	887
Long-term disability plans (note 10)			300	281
Early retirement incentive plans (note 10)			63	226
Supplemental pension obligations (note 10)			1,324	954
			30,907	30,080
Current portion of long-term liabilities			(2,886)	(5,623)
Balance, end of year			$ 28,021	$ 24,457

* Indicates payable to Alberta Capital Finance Authority which is a related party.

The debentures and mortgages are secured by land and buildings and are carried at their amortized value. The estimated fair market value for debentures and mortgages as at March 31, 2007 is $30,838 (2006 - $29,773). The fair market value of long-term debt is determined by discounting future cash flows using market rates representing rates that the University could obtain at March 31, 2007 for loans with similar terms, conditions and maturities.

During the year, interest on long-term debt amounting to $1,597 (2006 - $1,620) has been charged to expense.

Principal payments on the debentures and mortgages during the next five fiscal years are as follows: 2008 - $ 2,356; 2009 - $ 2,028; 2010 - $ 2,102; 2011 - $ 2,181; 2012 - $1,337.

Payments on the early retirement incentive plans during the next five fiscal years are as follows: 2008 - $55; 2009 - $8; 2010 to 2012 - $NIL.

The future minimum lease payments under capital leases are as follows: 2008 - $295 (net of an average interest rate of 3.90%); 2009 to 2012 - $NIL

Note 10 Future Employee Benefits

The University has defined benefit plans that provide future employment benefits, which include long-term disability leave plans, retirement incentive plans and supplemental pension obligations. The early retirement plans were available to employees from 1992 to 1998. Information about the University's defined benefit plans is as follows:

			2007			2006
	Long-term Disability	Early Retirement Incentive	Supplemental Pension Obligation	Long-term Disability	Early Retirement Incentive	Supplemental Pension Obligation
Development of Expense						
Current service cost	$ -	$ -	$ 183	$ -	$ -	$ 120
Interest cost	39	7	65	41	16	52
Amortization of transitional obligation	-	-	-	-	-	1
Amortization of net actuarial losses (gains)	(16)	(5)	-	(16)	-	2
Amortization of past service cost	87	-	49	87	-	-
Curtailment	-	-	79	-	-	-
Settlement Loss	-	-	20	-	-	-
Expense	$ 110	$ 2	$ 396	$ 112	$ 16	$ 175
Financial Status						
Plan assets	-	-	-	-	-	-
Accrued Benefit Obligation	858	63	1,595	864	226	1,004
Funded status - plan deficit	(858)	(63)	(1,595)	(864)	(226)	(1,004)
Unamortized net actuarial (gains) losses	(648)	-	271	(202)	-	48
Unamortized past service costs	1,206	-	-	785	-	-
Unamortized transitional obligation	-	-	-	-	-	2
Accrued benefit liability (note 9)[1]	$ (300)	$ (63)	$ (1,324)	$ (281)	$ (226)	$ (954)
Reconciliation of Accrued Benefit Obligation						
Accrued Benefit Obligation, beginning of year	864	226	1,004	914	493	844
Current service cost	-	-	183	-	-	120
Interest cost	39	7	65	41	16	52
Benefits paid	(91)	(165)	(26)	(91)	(283)	(12)
Actuarial (gain) loss	46	(5)	221	-	-	-
Past service cost	-	-	49	-	-	-
Settlement Loss	-	-	20	-	-	-
Curtailment loss	-	-	79	-	-	-
Accrued Benefit Obligation, end of year	$ 858	$ 63	$ 1,595	$ 864	$ 226	$ 1,004

(1) The accrued benefit liability for these benefit plans is included in long-term liabilities. The University plans to use its working capital to finance future obligations under these plans.

Note 10 Future Employee Benefits (continued)

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations are as follows:

	Long-term Disability		Early Retirement Incentive		Supplemental Pension Obligation	
	2007	2006	2007	2006	2007	2006
Accrued benefit obligation as of March 31						
Discount Rate	4.50%	4.75%	4.50%	4.75%	4.85%	5.5%
Average compensation increase	n/a	n/a	n/a	n/a	4%	4%
Benefit costs for years ended March 31						
Discount rate	4.50%	4.75%	4.50%	4.75%	4.85%	5.5%
Average compensation increase	n/a	n/a	n/a	n/a	4%	4%
Assumed health care cost trend rates at March 31						
Dental costs	3%	3%				
Extended health care costs	8.5%	6.0%				
Alberta health care costs	3%	3%				

The University participates with other employers in the Universities Academic Pension Plan (UAPP) and the Public Service Pension Plan (PSPP). These pension plans are multi-employer defined benefit plans that provide pensions for the University's participating employees based on years of service and earnings. The pension expense recorded in these financial statements is equivalent to the University's actuarially determined contributions of $26,960 for the year ended March 31, 2007 (2006 - $22,421).

The PSPP is a contributory defined benefit pension plan for support staff members. At December 31, 2006, the PSPP reported an actuarial surplus of $153,024 (2005 – deficit of $187,704). An actuarial valuation of the PSPP was carried out as at December 31, 2005 and was then extrapolated to December 31, 2006.

The UAPP is a multi-employer contributory defined benefit pension plan for academic staff members and other eligible employees of the Universities of Alberta, Calgary and Lethbridge, Athabasca University and The Banff Centre. At December 31, 2006, the UAPP reported an actuarial deficiency of $409,128 (2005 - $537,415) consisting of a pre-1992 deficiency ($399,521) and a post 1991-deficiency ($9,607). An actuarial valuation of the UAPP was carried out as at December 31, 2004 and was then extrapolated to December 31, 2006. The unfunded liability for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2005 - 1.25%) of salaries by the Province of Alberta. Employees and employers equally share the balance of the contributions of 2.28% (2005 – 2.28%) of salaries required to eliminate the unfunded liability by December 31, 2043. The unfunded liability for service after December 31, 1991 is financed by special payments of 2.64% (2005 – 2.64%) of salaries shared equally between employees and employers until December 31, 2017. The special payments will decrease to 1.38% of pensionable earnings on January 1, 2018 and continue until December 31, 2019. The University of Calgary's share of the total unfunded liability projected to March 31, 2007 is estimated at $36,400 ($35,200 for pre-1992 service and $1,200 for post-1991 service).

Note 11 Net Assets Restricted for Endowment Purposes

Endowments consist of:

- Restricted donations to the University - the principal must be maintained intact in perpetuity (externally restricted)
- Internal allocations by the Board of Governors (internally restricted).

The investment income earned on endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. The economic value of the endowments are protected by limiting the amount of investment income that may be spent to 5% of the 4 year rolling market average of the principal donation, except as otherwise stipulated by the donor.

Note 11 Net Assets Restricted for Endowment Purposes (continued)

Investment income earned in excess of this amount is added to the endowment principal. Under *The Post-Secondary Learning Act*, the University has the authority to alter the terms and conditions of externally restricted endowments to enable income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, or should the investment return be negative, the spending allocation is funded from the cumulative capitalized earnings. However, for individual endowment funds without sufficient cumulative capitalized earnings, endowment capital is used in the current year. This amount is expected to be recovered by future investment income.

			2007			2006 (restated note 21)
	External	Internal	Total	External	Internal	Total
Contributions received during the year	$ 30,793	$ 4,615	$ 35,408	$ 23,160	$ 3,052	$ 26,212
Board approved transfers	(56)	2,427	2,371	-	1,171	1,171
Endowment spending allocation including fees	(10,540)	(2,789)	(13,329)	(10,414)	(2,599)	(13,013)
Investment income [(1)]	44,422	4,175	48,597	38,620	6,649	45,269
Increase during the year	64,619	8,428	73,047	51,366	8,273	59,639
Balance, beginning of year	303,922	60,206	364,128	252,556	51,933	304,489
Balance, end of year	$ 368,541	$ 68,634	$ 437,175	$ 303,922	$ 60,206	$ 364,128
Cumulative contributions	$ 211,446	$ 36,886	$ 248,332	$ 180,709	$ 29,844	$ 210,553
Cumulative capitalized earnings	157,095	31,748	188,843	123,213	30,362	153,575
Balance, end of year	$ 368,541	$ 68,634	$ 437,175	$ 303,922	$ 60,206	$ 364,128

(1) Investment income does not include realized investment income that is used to offset expenditures in the consolidated statement of revenue and expense.

Note 12 Net Assets Investment in Capital Assets and Collections

Net assets invested in capital assets and collections represent the carrying amount (net book value) of capital assets and collections less unamortized deferred capital contributions and any related debt.

	2007	2006 (restated note 21)
Capital assets and collections, at cost	$ 1,651,300	$ 1,546,536
Accumulated amortization	(901,610)	(835,024)
Patents, at cost	2,564	2,077
Accumulated amortization of patents	(1,146)	(1,029)
Net book value	751,108	712,560
Less amounts financed by:		
Unamortized deferred capital contributions (note 8)	(510,559)	(475,447)
Long-term debt	(26,359)	(24,473)
Balance, end of year	$ 214,190	$ 212,640

Note 13 Net Assets Internally Restricted

Internally restricted net assets represent amounts set aside by the University's Board of Governors for specific purposes. These amounts are not available for other purposes without the approval of the Board. At March 31, 2007, net assets have been set aside for the following purposes:

	2007	2006
Subsidiaries	$ 1,408	$ 1,430
Indirect Research Support	900	1,142
Internally Restricted for Future Commitments and Strategic Reinvestments	21,581	22,769
Faculty and Departmental	2,438	1,960
Balance, end of year	$ 26,327	$ 27,301

Note 14 Investment Income

	2007	2006
Gain on externally restricted endowments	$ 44,682	$ 38,961
Gain on internally restricted endowments	6,721	7,874
Gain on non-endowed investments	10,755	14,076
	62,158	60,911
Amounts deferred in current year	(3,382)	(6)
Income capitalized to externally restricted endowments	(17,837)	(22,460)
Excess of revenue over expenditures capitalized to endowments	(16,068)	(6,086)
Total Investment income recognized as revenue	$ 24,871	$ 32,359

Note 15 Salaries and Benefits

In accordance with Province of Alberta Treasury Board Directive, the salaries and benefits of the University's senior decision management group are disclosed as follows:

				2007	2006
	Base Salary [1]	Other Cash Benefits[2]	Other Non-Cash Benefits[3] & [6]	Total	Total
Governance [4]					
Chair of the Board of Governors	$ -	$ -	$ -	$ -	$ -
Members of the Board of Governors	-	-	-	-	-
Executive					
President	334	-	148	482	449
Vice-Presidents:					
Provost and Academic [5]	254	95	175	524	306
Finance and Services	233	3	52	288	273
Research and International	182	-	45	227	218
External Relations	212	-	62	274	255
Total	$ 1,215	$ 98	$ 482	$ 1,795	$ 1,501

(1) *Base Salary*

Base salary includes regular base pay.

(2) *Other Cash Benefits*

Other cash benefits include honorariums.

(3) Other Non-cash Benefits

Other non-cash benefits include the University's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plan, workers compensation, professional expense allowance and the employer's current and prior service cost of the unfunded supplementary retirement plan as per note (6) below. Benefits reported for the President include a housing allowance. Benefits reported for the President and Vice-Presidents include car allowances or the taxable benefit for the use of University leased vehicles.

(4) *Governance*

The Board of Governors governs the University. Members are either appointed or serve in an ex-officio capacity. Members may be employed by the University. Members do not receive remuneration for their participation on the Board.

(5) The Provost and Vice-President Academic retired in June 2006. Compensation amounts include a payment of a $67 retirement allowance in other cash benefits and an accrued Supplemental Pension Plan Expense of $115 in other non-cash benefits. A new Provost and Vice-President Academic commenced in July 2006.

(6) Under the terms of the supplementary retirement plan (SRP), executive officers may receive supplemental retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post employment period. SRP provides future pension benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, and management's best estimate of expected costs and the period of benefit coverage. Net actuarial gains and losses in excess of 10% of the benefit obligation are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year.

Note 15 Salaries and Benefits (continued)

Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

Supplementary Retirement Benefits

			2007	2006
	Current Service Cost	**Prior Service and Other Costs**	**Total**	**Total**
Governance				
Chair of the Board of Governors	$ -	$ -	$ -	$ -
Members of the Board of Governors	-	-	-	-
Executive				
President	44	14	58	53
Vice-Presidents:				
Provost and Academic	48	91	139	34
Finance and Services	28	6	34	31
Research and International	13	4	17	15
External Relations	17	4	21	19
Total	$ 150	$ 119	$ 269	$ 152

The accrued obligation for each executive under the SRP is outlined in the following table:

	Accrued obligation March 31, 2006	Changes in accrued obligation	Accrued obligation March 31, 2007
Governance			
Chair of the Board of Governors	$ -	$ -	$ -
Members of the Board of Governors	-	-	-
Executive			
President	201	145	346
Vice-Presidents:			
Provost and Academic (1)	184	129	313
Finance and Services	77	72	149
Research and International	49	34	83
External Relations	59	62	121
Total	$ 570	$ 442	$ 1,012

(1) The accrued benefit obligation represents amounts due to both the current and retired Provost and Vice-President Academic. During the year, $10 of benefits was paid out to the retired incumbent.

Note 16 Budget Comparison

The University's 2006-07 budget was approved by the Board of Governors on April 21, 2006.

	2007		2006	
	Budget	**Actual**	**Budget**	**Actual**
REVENUE				
Government of Alberta grants & Other government grants	$ 463,911	$ 456,721	$ 421,968	$ 414,286
Donations and other grants	73,242	78,802	70,349	67,949
Credit tuition and related fees	121,822	121,716	123,170	120,319
Non-credit tuition and related fees	15,272	15,775	15,970	13,706
Sales of services and products	72,489	81,507	81,680	74,745
Amortization of deferred capital contributions	39,269	47,516	56,925	38,910
Investment income	20,467	24,871	19,636	32,359
	806,472	826,908	789,698	762,274
EXPENSE				
Salaries & benefits	515,980	474,399	465,356	438,037
Materials, supplies & services, travel, cost of goods sold, maintenance & repairs	156,979	197,561	177,865	173,117
Amortization of capital assets	65,330	73,255	80,877	66,654
Utilities	24,675	24,495	22,930	24,294
Scholarships, grants and awards	41,066	41,969	38,287	37,578
Financing	3,192	1,597	3,059	1,627
	807,222	813,276	788,374	741,307
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	$ (750)	$ 13,632	$ 1,324	$ 20,967

Note 17 Pledges

Outstanding pledges at March 31, 2007 are $109,953 (2006 - $57,153) and have not been recorded as accounts receivable. These pledges are expected to be honored over the next several years.

Note 18 Commitments and Contingencies

(a) As at March 31, 2007 the University has contractual commitments of $41,634 (2006 - $28,555) for capital projects.

(b) The University is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be reasonably estimated at this time, it is the opinion of the University and its legal counsel that the resolution of these claims will not have a material effect on the financial position or the results of operations of the University. Any loss that may result from these proceedings will be accounted for in the period in which the settlement occurs. Administration has concluded that none of the claims meet the criteria for being recorded under GAAP.

(c) The University is one of the members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability and errors and omissions risk of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through the members' premiums. As at December 31, 2006 CURIE had a surplus of $16,507 (2005 - $11,175) of which the University's pro rata share is approximately 6.13% (2005 – 6.29%) on an ongoing basis.

(d) The University's commitments for operating leases for the next five years are as follows: 2008 - $1,081; 2009 - $1,045; 2010 - $918; 2011 - $614; 2012 - $378.

(e) In order to manage its exposure to the volatility in the electrical industry, the Board of Governors entered into a five year contract with Enmax effective January 01, 2007. The basis of the contract is a floating hourly market price with the option to hedge any portion of the electrical load in the future.

Note 18 Commitments and Contingencies (continued)

Using best estimates of future consumption levels, the costs incurred to December 31, 2011 when the contract expires are expected to be approximately $15,350.

(f) The University has a contract for natural gas with Direct Energy Business Services. The contract is an Energy Purchase Agreement based on an index (floating on the spot market) price with an option to hedge any portion of the requirement at any time. The value of the contract for the commodity is approximately $7,800. The contract expires October 31, 2007.

(g) As at March 31, 2007 the University had entered into future employment contracts that included commitment by the University to provide or guarantee housing loans in the amount of $1,300 (2006 - $ Nil)

Note 19 Related Party Transactions

(a) The University is a Provincial Corporation as all the members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education and Technology. Transactions between the University and the Province of Alberta are summarized as follows:

	2007	2006
Alberta Advanced Education and Technology:		
Operating grant	$ 275,478	$ 236,410
Access grants	20,993	10,938
Miscellaneous grants	16,092	29,603
Performance funding	720	1,992
Capital grants	100,911	15,315
Total Alberta Advanced Education and Technology grants	414,194	294,258
Other provincial departments and agencies	56,973	112,112
Total Government of Alberta grants received	471,167	406,370
Provincial grants deferred	(105,914)	(69,271)
Earned Government of Alberta grants	$ 365,253	$ 337,099

The University has accounts receivable from the Province of Alberta of $21,060 (2006 - $5,211), accounts payable of $242 (2006 - $NIL) and long-term liabilities of $23,699 (2006 - $20,806 - restated). The Province of Alberta has provided $10,000 (2006 - $15,000) in matching grants for externally restricted endowment contributions, which is included in endowment net assets.

(b) The Calgary Health Region and the Province of Alberta are related parties as the Region's board is appointed by the Minister of Health and Wellness. As the University and the Province of Alberta are related parties, the Calgary Health Region is a related party to the University. Transactions between the University and the Calgary Health Region are summarized as follows.

	2007	2006
The University of Calgary pays to the Calgary Health Region in the normal course of operations amounts related to utilities; salaries and benefits; and materials, supplies and overheads. Expenditures incurred:	$ 13,813	$ 15,275
The University of Calgary receives from the Calgary Health Region in the normal course of operations amounts related to physicians; research projects, studies and grants; programs; and support services. Revenues included in income:	$ 27,717	$ 23,404
Net receivable to the University of Calgary from the Calgary Health Region:	$ 6,882	$ 2,701

Note 19 Related Party Transactions (continued)

The University has entered into a lease agreement with the Region to lease 32 acres of land to the Region for the site of the new Alberta Children's Hospital. The University also leases land to the Region for a parkade at the Foothills Medical Centre. Effective September 2003 the University and the Calgary Health Region entered into a 25-year agreement for the Region to lease space in the University Research Centre Building. This lease has been accounted for as a capital lease.

At March 31, 2007, the carrying value of the lease receivable is $15,421 (2006 – $15,585). During the year the University received $1,318 in lease payments (2006 – $1,318), $1,153 of which was recognized as interest income (2006 – $1,165).

(c) The University of Calgary Foundation (1999) is a private foundation, which operates to receive gifts and donations and to periodically provide grants to the University. During the year, the University received grants from the Foundation totaling $140 (2006 - $532). At March 31, 2007 the University was holding $3,391 on behalf of the Foundation (2006 - $279).

(d) The University of Calgary Medical Group (UCMG) is a not-for-profit organization that provides billing services to the members of UCMG in accordance with an Agency Agreement and a Member Agreement. These agreements govern the activities of the group such as billings, collections and accounting services. Effective January 1, 2001, a clinical service levy, based on percentages of individual member's medical revenue is paid to the University of Calgary.

(e) The McMahon Stadium Society is incorporated under the Societies Act as a not-for-profit organization. It operates to improve and manage the McMahon Stadium together with its facilities for sports, recreation and other useful purposes. The University of Calgary owns the stadium land and facilities and leases it to the society for one dollar a year. The current lease agreement expires April 30, 2010. During the year, the University of Calgary paid $86 (2006 - $87) to the McMahon Stadium Society for utilities and supplemental costs incurred as a result of the University's use of the facilities.

(f) In 2007 and 2006, the University participated in offering certain courses with other public colleges, universities, and institutes. The revenues and expenses incurred for these courses have been included in the consolidated statement of revenue, expenses and unrestricted net assets, but have not been separately quantified.

Note 20 Comparative Figures

Certain 2006 figures have been reclassified to conform to the presentation adopted in the 2007 financial statements

Note 21 Correction of Error

In fiscal 2003, the University received a restricted land donation where the donor agreement specified that upon the sale of the land, the proceeds were to be endowed. The land was recorded to capital assets which increased the University's net investment in capital assets. This donation should have been recorded to investments with a corresponding increase to the endowment pool. This error has been corrected in the financial statements.

These changes have been applied retroactively with restatement of comparative numbers. The impact on the prior year financial statements as a result of the correction of error is as follows:

	As Previously Reported	Correction of Error	2006 (as restated)
Statement of Financial Position			
Increase (decrease) in:			
Capital Assets and Collections	720,282	(8,770)	711,512
Long-term Investments	351,277	8,770	360,047
Restricted for endowment purposes	355,358	8,770	364,128
Investment in capital assets and collections	221,410	(8,770)	212,640

Note 22 Net Assets Unrestricted

The deficit in unrestricted net assets of $1,802 at March 31, 2007 is a result of temporary timing differences in cash flows related to two major capital projects.

Note 23 Approval of Financial Statements

These financial statements have been approved by the Board of Governors following the recommendation of the Audit Committee.

THE ARCTIC INSTITUTE OF NORTH AMERICA
Financial Statements

For the year ended March 31, 2007

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Revenue and Expense
- Statement of Changes in Net Assets
- Statement of Cash Flow
- Notes to the Financial Statements
- Schedule 1 – Arctic Journal Statement of Operations

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the University of Calgary

I have audited the statement of financial position of the Arctic Institute of North America as at March 31, 2007 and the statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Arctic Institute of North America as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 1, 2007

THE ARCTIC INSTITUTE OF NORTH AMERICA
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2007

	2007	2006
ASSETS		
Current assets		
Due from University of Calgary	$ 785,347	$ 787,282
Petty cash	400	400
Accounts receivable	105,813	97,933
Inventory	12,102	14,332
Prepaid expenses	2,745	1,740
	906,407	901,687
Investments (Note 3)	1,216,597	1,188,646
Capital assets and collections (Note 4)	619,421	600,365
	$2,742,425	$2,690,698
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued charges	$ 87,291	$ 89,216
Deferred revenue	65,555	63,641
Deferred contributions (Note 5)	107,398	115,149
	260,244	268,006
Unamortized deferred capital contributions (Note 6)	112,747	79,852
Net assets		
Unrestricted net assets	1,293,501	1,255,802
Investment in capital assets and collections	506,674	520,513
Internally restricted net assets (Note 7)	117,135	133,249
Endowments (Note 8)	452,124	433,276
	2,369,434	2,342,840
	$2,742,425	$2,690,698

Signed on behalf of the Board

Chair of the Board

Executive Director

The accompanying notes are part of these financial statements

THE ARCTIC INSTITUTE OF NORTH AMERICA
STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED MARCH 31, 2007

	2007	2006
Revenue		
University of Calgary and Government grants	$435,293	$407,592
Sales of services and products	367,353	361,562
Donations and other grants	151,144	207,283
Investment Income (Note 9)	127,041	144,770
Earned capital contributions	6,996	4,621
	1,087,827	1,125,828
Expense		
Salaries (Note 11)	632,969	641,930
Benefits (Note 11)	96,992	101,566
Materials	259,287	283,870
Grants, scholarships and awards	24,250	22,135
Amortization of capital assets	24,346	20,299
Travel and meeting	38,530	24,021
	1,076,374	1,093,821
Excess of revenue over expense	$ 11,453	$32,007

The accompanying notes are part of these financial statements

THE ARCTIC INSTITUTE OF NORTH AMERICA
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2007

	2007					2006
	Internally Restricted	Unrestricted	Investment in Capital Assets and Collections	Restricted for Endowment Purposes	Total	Total
Net assets beginning of year	$133,249	$1,255,802	$520,513	$433,276	$2,342,840	$2,290,921
Transfer from deferred contributions	-	-	-	7,583	7,583	-
Excess of revenue over expense	-	11,453	-	-	11,453	32,007
Transfer to (from) internally restricted	(16,114)	16,114	-	-	-	-
Gain on endowments-external	-	-	-	6,143	6,143	19,142
Gain on endowments-internal	-	(3,707)	-	3,707	-	-
Acquisition of internally funded capital assets	-	(3,511)	3,511	-	-	-
Disposal of net assets	-	6,030	(6,030)	-	-	-
Amortization of internally funded capital assets	-	11,320	(11,320)	-	-	-
Contribution to endowment	-	-	-	1,415	1,415	770
Net assets end of year	$117,135	$1,293,501	$506,674	$452,124	$2,369,434	$2,342,840

The accompanying notes are part of these financial statements

THE ARCTIC INSTITUTE OF NORTH AMERICA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2007

	2007	2006
Cash provided from (used in):		
Operating activities:		
Excess of revenue over expense	$ 11,453	$32,007
Items not affecting cash flow:		
Amortization of capital assets	24,346	20,299
Amortization of deferred capital contributions	(6,996)	(4,621)
Gain on non-endowed and internally restricted endowment investments	(20,391)	(63,500)
Net change in non-cash working capital	(14,417)	(25,089)
Cash (applied to) generated from operating activities	(6,005)	(40,904)
Investing activities:		
Purchase of capital assets, net	(43,404)	(33,449)
Increase in long-term investments, net	(1,415)	(769)
Gain on investments related to externally restricted endowments	(6,143)	(19,142)
Cash applied to investing activities	(50,962)	(53,360)
Financing activities:		
Endowment contributions	8,998	770
Capital contributions	39,891	29,277
Gain on externally restricted endowments	6,143	19,142
Cash generated through financing activities	55,032	49,189
Decrease in cash and cash equivalents	(1,935)	(45,075)
Due from University of Calgary at beginning of year	787,282	832,357
Due from University of Calgary at end of year	$785,347	$787,282
Net change in non-cash working capital:		
Accounts receivable (increase)	$ (7,880)	$(26,506)
Inventory decrease	2,230	1,275
Prepaid expenses (increase) decrease	(1,005)	1,242
Accounts payable (decrease) increase	(1,925)	21,133
Deferred revenue increase (decrease)	1,914	(20,992)
Deferred contributions decrease	(7,751)	(1,241)
	$ (14,417)	$ (25,089)

The accompanying notes are part of these financial statements

THE ARCTIC INSTITUTE OF NORTH AMERICA
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2007

Note 1 Authority and Purpose

The Arctic Institute of North America (the "Institute") operates under authority of an Act of the Federal Parliament (*9 – 10 George VI, Chapter 45*). Its objective is to initiate, encourage and support northern research and to advance the study of arctic conditions and problems.

Under a 1979 agreement between the Institute and the University of Calgary, the Institute vested its control and management with the University.

The Institute is a charitable organization and is exempt from payment of income tax under the *Income Tax Act of Canada*.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) General

The financial statements of the Institute have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates which may vary from actual results. Such estimates have been made using judgments determined by the Institute's administration. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting polices summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

(b) Revenue Recognition

Operating grants are recognized as revenue in the period receivable. If a portion of a grant relates to a future period, that portion is deferred and recognized in the subsequent period.

Unrestricted cash donations are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for the purposes designated by external parties. Any externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property such as collections.

Externally restricted capital grants are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the deferred capital contribution revenue are matched to indicate that the related amortization expense has been funded.

Amounts received for the sales of services and products are classified as unearned and recognized as revenue at the time the products are delivered or the services are substantially provided.

(c) *Inventory*

Inventory of publications held for resale is valued at the lower of cost and net realizable value. Cost is determined using the first in, first out basis.

(d) *Due from University of Calgary*

Due from University of Calgary represents the Institute's cash held by the University of Calgary.

(e) *Investments*

Investments consist of units held in The University of Calgary pool of index funds. Cash and cash equivalents and investments are held in trust by the Institute's parent, The University of Calgary. Investments are recorded at market value. Market value is determined based on the current market price of the underlying asset. Changes in market value from one period to the next are included in the investment income (loss) for the period (Note 9). Such investment income (loss) is included in revenue in accordance with the revenue recognition policy (Note 2b).

(f) *Capital Assets and Collections*

Capital assets and collections are recorded at cost as acquired. Gifts of capital assets and collections in kind are capitalized at fair value when a fair value can be reasonably determined. Capital assets are amortized on a straight-line basis over the average useful lives of the capital assets which are:

Buildings	30 years
Leasehold improvements	20 years
Furnishings and equipment	10 years
Vehicles	7 years
Other	5 years
Computer equipment	3 years

Collections are not amortized and include that portion of library assets considered to have permanent value and works of art, carvings, historic films, sound records and tape recordings which are held for educational and public exhibition purposes. If sold, collections are removed from the accounts at their book value and any proceeds from their sale are used to acquire other items to be added to the collections. Construction in progress is not amortized until construction is substantially complete and assets are ready for productive use.

(g) *Employee Future Benefits*

The Institute participates in the University Academic Pension Plan. The pension plan is a multi-employer defined benefit pension plan that provides pensions for the Institute's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the respective pension plan. The Institute's portion of the pension plans' deficit or surplus is not recorded by the Institute.

(h) *Credit, Interest Rate and Market Risk*

The Institute's accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

The interest rate risk is the risk to the Institute's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates.

The market risk is the risk to the Institute's earnings that arises from the fluctuations and degree of volatility in the market value of its long-term investments.

(i) *Financial Instruments*

The carrying value of the financial assets and financial liabilities are considered fair value unless otherwise disclosed.

Note 3 Investments

Periodically, the Institute's Board directs the University to transfer cash equivalents into long-term investments. The University manages the Institute's investments on behalf of the Institute. The Institute follows the University investment policy. Investments include instruments in the following funds:

		2007		2006
	Annual Market Yield		Annual Market Yield	
Money market investments		$ 762		$ 2,013
Bond index	5.52%	303,338	4.85%	313,769
International index	20.85%	271,562	19.52%	248,713
S&P 500 index	10.61%	232,554	7.75%	199,353
Canadian equities	13.40%	408,381	26.57%	424,798
		$1,216,597		$1,188,646

Note 4 Capital Assets and Collections

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings and leasehold improvements	$105,016	$ 83,173	$ 21,843	$22,960
Furnishings and equipment	237,604	215,026	22,578	42,297
Collections	495,967	-	495,967	495,967
Construction in progress	79,032	-	79,032	39,141
	$917,620	$298,199	$619,421	$600,365

Note 5 Deferred Contributions

Deferred contributions represent unspent contributions externally restricted for non-capital purposes. Changes in the deferred contribution balances are as follows:

	2007	2006
Contributions received during the year:		
Grants	$100,000	$ 97,975
Sales	3,431	9,580
Donations and other grants	37,096	42,405
Investment income	21,608	16,844
	162,135	166,804
Transferred to revenue:		
Grants	110,181	92,092
Sales	4,770	3,764
Donations and other grants	3,918	31,756
Investment income	3,543	11,156
	122,412	138,768
Transferred to unamortized deferred capital contributions	39,891	29,277
Transfer to Endowments	7,583	-
Decrease during the year	(7,751)	(1,241)
Balance, beginning of year	115,149	116,390
Balance, end of year	$107,398	$115,149
The balance is restricted for:		
Scholarships	$33,506	$23,025
Research	73,892	92,124
	$107,398	$115,149

Note 6 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the externally funded portion of capital assets, which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contributions balance are as follows:

	2007	2006
Transfer from Deferred Contributions (note 5)	$39,891	$29,277
Amortized to revenue	(6,996)	(4,621)
Increase during the year	32,895	24,656
Balance, beginning of year	79,852	55,196
Balance, end of year	$112,747	$79,852

Note 7 Internally Restricted Net Assets

The Board of Directors has designated funds for specific purposes. These are for:

	2007	2006
Kluane Field Station Refurbishment	$ 30,000	$ 30,000
Research Associates Development Fund	1,164	1,164
Kluane Lake Research Station - Maintenance	10,000	10,000
ASTIS Restricted Funds	25,901	39,242
Publications	50,070	52,843
	$117,135	$133,249

Note 8 Endowments

Endowments consist of restricted contributions where the principal is required to be maintained in perpetuity (externally restricted) as well as internal allocations by the Board of Directors (internally restricted). The investment income generated from endowments must be used in accordance with the purpose established by the donors or Board of Directors.

	Balance March 31 2006	Contributions Received	Investment Gain	Balance March 31 2007
Externally Restricted:				
Jennifer Robinson Memorial Endowment	$71,588	$2,025	$ 1,642	$ 75,255
Lorraine Allison Scholarship	33,264	942	763	34,969
Jim Bourque Scholarship Fund	22,203	634	539	23,376
Budget Calgary Educational Award	24,875	913	575	26,363
BP Canada Scholarship	70,105	1,773	1,574	73,452
Gerald Thompson Scholarship	45,701	1,296	1,049	48,046
	267,736	7,583	6,143	281,461
Internally Restricted:				
Life Members Endowment Fund	165,540	1,415	3,707	170,662
	$433,276	$8,998	$9,850	$452,124

Note 9 Investment Income

	2007	2006
Restricted investment income on resources held for endowments	$ 21,608	$16,844
Non-restricted investment income	97,174	70,114
Add gross-up fees	5,931	-
Total net realized investment income	124,713	86,958
Gain on unrestricted investments	16,684	51,994
Gain on externally restricted endowments	6,143	19,142
Gain on internally restricted endowments	3,707	11,506
	151,247	169,600
Net transfer to deferred contributions	(18,063)	(5,688)
Amounts credited directly to endowment principal	(6,143)	(19,142)
	$127,041	$144,770

Note 10 Related Party Transactions

(a) The Institute received operating grants of $314,903 (2006 - $305,600) from The University of Calgary. In addition, accommodation, basic office furnishings and certain other administrative and operating costs were borne by the University. These services are valued at $17,161 (2006 - $42,994), and are included in donations and other grants, and materials, supplies and services in these financial statements.

(b) During the year, the Institute administered a number of grants on behalf of The University of Calgary. These grants totaling $30,200 (2006 - $27,000) and related expenditures of $28,200 (2006 - $27,000) are not reflected in these financial statements but are reported in the financial statements of the University.

Note 11 Salaries and Benefits

In accordance with Province of Alberta Treasury Board Directive, the salaries and benefits of the Institute's senior decision management group are disclosed as follows:

	2007				2006
	Base Salary(1)	Other Cash Benefits(2)	Other Non-Cash Benefits(3)	Total	Total
Governance (4)					
Chair of the Board of Directors	$ -	$ -	$ -	$ -	$ -
Other members of the Board of Directors	-	-	-	-	-
Executive					
Executive Director	115,581	12,000	18,687	146,268	143,586
	$115,581	$ 12,000	$18,687	$146,268	$143,586

(1) *Base salary*
Base salary includes regular base pay.

(2) *Other cash benefits*
Other cash benefits include honorariums and research allowances.

(3) *Other non-cash benefits*
Other non-cash benefits include the Institute's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plan, and worker's compensation.

(4) *Governance*
The Board of Directors do not receive remuneration for their participation on the Board.

Note 12 Pension Costs

The Pension expense recorded in these financial statements is equivalent to the Institute's annual contributions payable of $35,414 for the year ended March 31, 2007 (2006 - $35,264).

The UAPP is a multi-employer contributory defined benefit pension plan for academic staff members and other eligible employees of the Universities of Alberta, Calgary and Lethbridge, Athabasca University and The Banff Centre. At December 31, 2006, the UAPP reported an actuarial deficiency of $409,128 (2005 - $537,415) consisting of a pre-1992 deficiency ($399,521) and a post 1991-deficiency ($9,607). An actuarial valuation of the UAPP was carried out as at December 31, 2004 and was then extrapolated to December 31, 2006. The unfunded liability for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2005 - 1.25%) of salaries by the Province of Alberta. Employees and employers equally share the balance of the contributions of 2.28% (2005 – 2.28%) of salaries required to eliminate the unfunded liability by December 31, 2043. The unfunded liability for service after December 31, 1991 is financed by special payments of 2.64% (2005 – 2.64%) of salaries shared equally between employees and employers until December 31, 2017. The special payments will decrease to 1.38% of pensionable earnings on January 1, 2018 and continue until December 31, 2019.

Note 13 Budget

The Institute's Board of Directors approved the budget on January 28, 2006.

	2007		2006	
Revenue	Budget	Actual	Budget	Actual
University of Calgary and Government grants	$ 441,015	$435,293	$381,655	$407,592
Sales of services and products	387,512	367,353	371,287	361,562
Donations and other grants	243,536	151,144	255,418	207,283
Investment income	93,860	127,041	57,231	144,770
Earned capital contributions	-	6,996	-	4,621
	1,165,923	1,087,827	1,065,591	1,125,828
Expense				
Salaries	651,643	632,969	630,984	641,930
Benefits	98,500	96,992	87,412	101,566
Materials	417,187	259,287	400,941	283,870
Grants, scholarships and awards	17,100	24,250	18,000	22,135
Amortization of capital assets	20,000	24,346	21,300	20,299
Travel and meeting	33,000	38,530	26,500	24,021
	1,237,430	1,076,374	1,185,137	1,093,821
(Deficiency) excess of revenue over expense	$(71,507)	$ 11,453	$(119,546)	$32,007

Note 14 Future Removal and Site Renovations

The buildings that the Institute owns are located on leased land in the Yukon. The lease between the Government of Yukon and the Institute is for 96 hectares and expires August 31, 2012.

Under the terms of the lease agreement between the Institute and the Yukon Government, the Institute may be required to remove any buildings placed on the land during the lease term.

The cost to remove buildings and restore the land has not been recorded, as the amount is not estimable at this time.

Note 15 Funds Held on Behalf of Others

The Institute provides administrative support and holds certain funds on behalf of others. The balance as at March 31, 2007 is $40,123 (2006 - $39,874).

Note 16 Comparative Figures

Certain prior year's figures were reclassified to conform to current year presentation.

Note 17 Approval of Financial Statements

These financial statements have been approved by the Board of Directors of the Institute.

THE ARCTIC INSTITUTE OF NORTH AMERICA
SCHEDULE 1 - ARCTIC JOURNAL
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2007

	2007	2006
Revenue		
Grants	$ 8,183	$9,900
Memberships and subscriptions	74,212	78,228
Back issues, page charges and reprints	35,452	32,724
Donation	7,663	6,000
Investment income	13,013	10,089
Total revenue	138,524	136,941
Expense		
Production and distribution	84,462	76,104
Salaries and benefits	75,358	69,332
Office	2,536	3,954
Total expenditure before amortization	162,356	149,390
Amortization of capital assets	-	1,297
Total expenditure	162,356	150,687
Deficiency of revenue over expense	$(23,833)	$(13,746)

The revenue and expense of the Arctic Journal are included as part of the revenue and expense on the Statement of Revenue and Expense

UNIVERSITY TECHNOLOGIES GROUP

Financial Statements

For the year ended March 31, 2007

Auditor's Report

Financial Statements:

- Combined Balance Sheet
- Combined Statement of Retained Earnings (Deficit)
- Combined Statement of Operations
- Combined Statement of Cash Flow
- Notes to the Combined Financial Statements
- Schedule 1
- Schedule 2
- Schedule 3
- Schedule 4

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Shareholder of University Technologies International Inc. and the Partners of
UTI Limited Partnership

I have audited the combined balance sheet of the University Technologies Group (formerly University Technologies International Inc.) as at March 31, 2007 and the combined statements of operations and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these combined financial statements present fairly, in all material respects, the financial position of the Group as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 27, 2007

University Technologies Group
(previously University Technologies International Inc.)
Combined Balance Sheet
As at March 31

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ **3,822,637**	$ 3,572,441
Accounts receivable	**481,207**	989,370
Income tax refund receivable	**-**	6,093
Prepaid expenses	**25,732**	25,945
Inventory *(note 4)*	**65,072**	72,469
Restricted cash and cash equivalents *(note 5)*	**720,226**	305,728
	5,114,874	4,972,046
Investments *(note 6)*	**114**	114
Property and equipment *(note 7)*	**176,160**	119,403
Intangible assets *(note 8)*	**1,245,894**	1,065,492
	$ **6,537,042**	$ 6,157,055
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ **811,095**	$ 738,471
Deferred revenue *(note 5)*	**720,226**	305,728
Interest payable on note *(note 11)*	**540,000**	540,000
	2,071,321	1,584,199
Long-term debt *(note 10)*	**1,131,295**	714,492
Long-term note payable *(note 11)*	**9,000,000**	9,000,000
Non controlling interest in subsidiary companies	**24,532**	40,653
	10,155,827	9,755,145
Shareholder's Deficiency		
Share capital *(note 12)*	**1**	1
Retained earnings (deficit)	**(5,690,107)**	(5,182,290)
	(5,690,106)	(5,182,289)
	$ **6,537,042**	$ 6,157,055

Commitments and contingency (*Note 13*)

On behalf of the Board of Directors

Director

Director

The accompanying notes are part of these combined financial statements.

University Technologies Group

(previously University Technologies International Inc.)
Combined Statement of Retained Earnings (Deficit)
For the years ended March 31

		2007		2006
Balance, Beginning of Year	$	**(5,182,290)**	$	1,813,445
Elimination of retained earnings upon reorganization		-		(1,813,445)
Excess of consideration paid in excess of historical book values *(note 1)*		-		(4,542,197)
Loss for the year		**(507,817)**		(640,093)
Balance, End of Year	$	**(5,690,107)**	$	(5,182,290)

The accompanying notes are part of these combined financial statements.

University Technologies Group

(previously University Technologies International Inc.)
Combined Statement of Operations
For the years ended March 31

	2007 Budget *(Note 18)*	2007 **Actual**	2006 Actual
Revenue			
Net licensing and royalty revenue (Schedule 1)	$ 1,541,418	**$ 2,199,784**	$ 1,785,450
Client contract revenue	75,000	**-**	75,000
Net product development revenue (expense) (Schedule 2)	(646,301)	**4,565**	(31,788)
Net sales revenue (Schedule 3)	385,846	**152,102**	144,196
Other revenue (expense)	-	**3,907**	7,668
	1,355,963	**2,360,358**	1,980,526
Expenses			
Personnel (Schedule 4) (*note 15*)	2,254,326	**1,984,377**	1,573,183
Operating	1,628,819	**1,122,913**	829,454
Interest	540,000	**552,518**	543,745
Amortization	260,000	**278,199**	273,686
Write down of patents	100,000	**214,721**	135,655
Other	216,150	**103,694**	138,871
	4,999,295	**4,256,422**	3,494,594
Expense reimbursements *(note 16)*	(1,388,117)	**(752,684)**	(242,773)
	3,611,178	**3,503,738**	3,251,821
Earnings (loss) before the following	(2,255,215)	**(1,143,380)**	(1,271,295)
Gain on sale of investments	1,000,000	**496,678**	640,989
Interest income	39,996	**183,680**	84,299
Foreign exchange gain/(loss)	-	**4,088**	(25,325)
Loss on sale of equipment	-	**(8,418)**	-
	1,039,996	**676,028**	699,963
Earnings (loss) before income taxes	(1,215,219)	**(467,352)**	(571,332)
Provision for current income taxes	-	**7,586**	36,063
Earnings (loss) before non controlling interest	(1,215,219)	**(474,938)**	(607,395)
Non controlling interest in earnings (loss) of subsidiary companies	-	**(32,879)**	(32,698)
Loss for the year	$ (1,215,219)	**$ (507,817)**	$ (640,093)

The accompanying notes are part of these combined financial statements.

University Technologies Group

(previously University Technologies International Inc.)
Combined Statement of Cash Flows
For the years ended March 31

	2007	2006
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ **(507,817)**	$ (640,093)
Add back non-cash items		
Amortization	**278,199**	273,686
Gain on sale of investments	**(496,678)**	(640,989)
Non-controlling interest	**32,879**	32,698
Write-down of patents	**214,721**	135,655
Loss on sale of equipment	**8,418**	
	(470,278)	(839,043)
Net change in non-cash working capital and restricted cash balances related to operations *(note 17)*	**594,490**	(176,407)
	124,212	(1,015,450)
Investing activities		
Purchase of property and equipment	**(130,993)**	(111,092)
Purchase of intangible assets	**(797,671)**	(530,725)
Cost recoveries on intangible assets	**188,167**	126,205
Change in investments	**-**	3
Proceeds on sale of equipment	**2,000**	-
Proceeds on sale of investments	**496,678**	665,428
	(241,819)	149,819
Financing activities		
Dividends to non-controlling interest	**(49,000)**	(98,000)
Proceeds from long-term debt	**416,803**	867,707
	367,803	769,707
Increase/(decrease) in cash and cash equivalents	**250,196**	(95,924)
Cash and cash equivalents, beginning of year	**3,572,441**	3,668,365
Cash and cash equivalents, end of year	$ **3,822,637**	$ 3,572,441

The accompanying notes are part of these combined financial statements.

University Technologies Group

(previously University Technologies International Inc.)
Combined Statement of Cash Flows - continued
For the years ended March 31

		2007		2006
Cash and cash equivalents are comprised of				
Cash in banks	$	**987,153**	$	1,542,788
Less: restricted cash		**(720,226)**		(305,728)
Bankers' acceptances		**3,555,710**		2,335,381
	$	**3,822,637**	$	3,572,441
Supplemental Information				
Cash taxes paid	$	**1,500**	$	5,528
Cash interest received		**183,680**		84,299
Cash interest paid		**552,518**		543,745
Non-Cash Transaction				
Note payable issued on reorganization *(Note 1)*	$	-		9,000,000

The accompanying notes are part of these combined financial statements.

1. Nature of operations and reorganization

University Technologies Group is dedicated to the pursuit of being recognized as a licensing, commercialization, and intellectual property management company.

On April 1, 2005, the original University Technologies International Inc. ("old UTI") underwent a reorganization whereby the University of Calgary transferred its shares in the old UTI to 6325041 Canada Ltd. (the "Numbered Co.") in exchange for a promissory note of $9,000,000 and a nominal number of shares of the Numbered Co. Old UTI was then amalgamated with Numbered Co. to form a new University Technologies International Inc. ("UTI" or the "Company"). UTI then became the general partner and manager of UTI Limited Partnership ("UTI LP" or the "Partnership"). UTI contributed all of its assets to the Partnership, as a capital contribution, at their fair market value of $9,000,000, in exchange for one Class A Preferred Partnership Unit and the assumption of its liabilities by the Partnership. A Trust, wholly owned by the University of Calgary, purchased the Class B Preferred partnership units for $100.

The contribution of the net assets has been accounted for, by the Partnership, using the carrying amounts of the assets contributed and the liabilities assumed in the accounts of UTI. The assets and liabilities contributed at Historical Book Values are as follows:

Cash and cash equivalents	$3,668,365
Inventory	78,804
Other current assets	757,145
Investments	24,556
Property and equipment	70,662
Intangible assets	1,007,962
Current liabilities	(656,951)
Long-term liabilities	(492,740)
Net Assets contributed	4,457,803
Consideration paid	9,000,000
Excess of consideration paid over Historical Book Values	$4,542,197

In accordance with generally accepted accounting principles for related party transactions, whereby the ownership interest has not changed, the excess of the consideration paid over the Historical Book Values of the assets has been accounted for as a reduction of unit holders' equity.

2. Basis of presentation

These financial statements are prepared on a combined basis as the entities being combined are under common control and managed by a common owner. These statements include the accounts of the Company, UTI LP and UTI LP's wholly owned subsidiaries University Technologies International Venture Management Inc., University Technologies International Business Ventures Inc., CytoStore Inc. and its 51 % owned subsidiaries NeuroSpheres Ltd. and NeuroSpheres Holdings Ltd. ("NHL"). The combined entities are referred to as University Technologies Group ("Group"). The combined balances are presented after eliminating the inter-company transactions and balances.

3. Significant accounting policies

These combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles the more significant of which are as follows:

a) Revenue recognition

Licensing and client contract revenues are recognized when persuasive evidence of an arrangement exists, collection of the fee is probable and there are no future obligations for performance. Client contract revenue is recorded as services are provided.

Royalty revenues are recognized when earned, based on product sales reported by licensees.

Product development revenue is deferred and recognized as related product development expenses are incurred. Product development revenue includes overhead recoveries.

Sales revenue is recorded when the product has been sold, delivery has occurred, and collection is reasonably assured.

b) Investments in significantly influenced companies

The Group accounts for its investments in AB Biopharma Inc. and ACT Pharma Inc., entities over which the Group has significant influence, by the equity method. Under the equity method, the Group's investments are recorded initially at cost, increased by the net earnings of the investee entity, decreased by net losses of the investee entity, and decreased by dividends received from the investee entity and adjustments required to recognize other changes in the Group's equity interest. Net earnings (losses) are recorded based on each investee corporation's most recent fiscal year end.

c) Other long-term investments

Other long-term investments, including marketable equity securities, are accounted for at cost unless it is assessed that there has been an "other than temporary" decline in value.

d) Property and equipment

Property and equipment are initially recorded at cost and amortization is provided over the estimated useful lives of the property and equipment on a straight-line basis as follows:

Office furniture and artwork	10 to 15 years
Office equipment and systems	3 years
Computer hardware	2 years
Website	3 years
Promotional Equipment	5 years
Leasehold improvements	Remaining term of 5 year lease

Management assesses the carrying amount of property and equipment for impairment when facts and circumstances indicate impairment has occurred and an impairment loss is recognized when the carrying amount exceeds fair value. No impairment loss has been recorded to date.

e) Intangible assets

Computer software is amortized on a straight-line basis over its estimated useful life of 2 years.

Patents are recorded at cost and include acquisition and maintenance costs. Patent costs are amortized on a straight-line basis over 10 years. The carrying value of patents related to a project is limited to the estimated future net cash flows from the project. Patent costs in excess of estimated future net cash flows are written off.

f) Investment tax credits

Investment tax credits are recognized when there is reasonable assurance of their recovery using the cost reduction method. Investment tax credits are subject to the customary assessments by the pertinent tax authorities. Adjustments required, if any, are reflected in the year when such assessments are received.

g) Income taxes

Income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determinable based on the tax laws and rates that are anticipated to apply in the period of realization. A valuation allowance is recorded to the extent there is uncertainty regarding realization of future tax assets.

h) Foreign currency translation

Transactions denominated in foreign currencies are translated using the temporal method. Under this method, monetary assets and liabilities are translated using the rate of exchange in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at the rate of exchange in effect on the date of the transaction. Revenues and expenses are translated at monthly average rates prevailing throughout the period, except for amortization, which is translated at exchange rates prevailing when the related assets were acquired. Exchange gains and losses resulting from translation are included in the statement of earnings and retained earnings.

i) Government assistance

Government assistance related to current expenses is recorded as a reduction of expenses when the related expenditures are incurred. Government assistance related to capital expenditures is reflected as a reduction in the cost of such assets. When cash is received in advance of the related expenditures, the grant is recorded as deferred revenue and the cash is separately disclosed as restricted cash.

j) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made for recoverability of patent costs and investment valuations.

k) Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit and highly liquid short-term interest bearing securities which mature within three months or less of the date of purchase.

l) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the weighted average method.

4. Inventory

Inventory is comprised of:

	2007	2006
UTI LP – Dataloggers & Cables	$ 34,412	$ 39,542
CytoStore – Reagents	30,660	32,927
	$ 65,072	$ 72,469

5. Restricted cash and cash equivalents

Certain cash and cash equivalents balances amounting to $720,226 (2006 - $305,728) are not available to pay ordinary operating expenses of the Group.

- $471,862 (2006 - $241,549) is held to pay for research and development expenses as provided by the terms of the agreements between the Group and firms sponsoring such activities.
- $104,840 is held to pay for costs associated with funds received from an Alberta Advanced Education & Technology grant received during that year.
- $99,458 is held to pay for costs associated with funds received from an Alberta Heritage Foundation for Medical Research block grant.
- $44,066 is held to pay for costs associated with funds received from an Alberta Ingenuity Fund grant.

6. Investments

		2007		2006
ACT Pharma Inc. – 49.99% of the issued and outstanding shares				
Equity investment at beginning of year	$	**108**	$	108
Share of income (loss)		**-**		-
		108		108
Other investments at cost				
Calgary Scientific Inc.		**1**		1
Helix Biomedix Inc. (1)		**1**		1
Membrane Reactor Technologies Inc. (1)		**-**		-
NYVARA Pharmaceutical Inc. (1)		**1**		1
On Stream Technologies Inc. (1)		**1**		1
ReNeuron Group PLC (1)		**1**		1
SalPep Inc.		**1**		1
SemBioSys Genetics Inc.		**-**		-
		6		6
	$	**114**	$	114

(1) Investments are related to non-monetary exchanges of shares in each company for licenses. The fair value of each transaction was nominal at the exchange date.

(a) Other equity investments

The Group also holds an equity investment of 49.99% in AB Biopharma Inc. The current value of the equity in this entity is $ nil.

(b) Other investments at market

Shares held in public companies and their related market values at the year-end are as follows:

	2007			2006		
	Number of shares		**Market value**	Number of shares		Market value
Helix Biomedix Inc. (2)	**4,050**	**$**	**4,536**	4,050	$	3,848
ReNeuron Group PLC (3)	**109,286**	**$**	**67,568**	103,727	$	33,148
SemBioSys Genetics, Inc.(1)	**1,036,264**	**$**	**3,160,605**	1,233,464	$	6,167,320

(1) On March 31, 2005 old UTI assessed the fair market value of SemBioSys Genetics at the IPO price of $5.00 per share, even though SemBioSys shares were trading at $6.50 per share at March 31, 2005, due to the limited marketability. The March 31, 2007 reported fair market value is $3.05 per share.

(2) Helix Biomedix Inc. has a market value of US$0.98 per share on March 31, 2007. The conversion rate used is $1.1529 resulting in a market price of CAD$1.12 per share.

(3) ReNeuron Group PLC has a market value of 0.27 Pence on March 31, 2007. The conversion rate used is $2.27 per U.K. Pound resulting in a market price of CAD$0.62 per share.

7. Property and equipment

			2007
	Cost	Accumulated amortization	Net
Artwork	**$ 3,239**	**$ 1,278**	**$ 1,961**
Website	**27,028**	**9,298**	**17,730**
Promotional Equipment	**3,102**	**472**	**2,630**
Office equipment and systems	**68,214**	**51,817**	**16,397**
Office furniture	**118,682**	**19,608**	**99,074**
Computer hardware	**159,517**	**127,803**	**31,714**
Leasehold improvements	**40,861**	**34,207**	**6,654**
	$ 420,643	**$ 244,483**	**$ 176,160**

			2006
	Cost	Accumulated amortization	Net
Artwork	$ 3,239	$ 1,061	$ 2,178
Website	18,388	2,386	16,002
Promotional Equipment	1,730	57	1,673
Office equipment and systems	78,741	55,520	23,221
Office furniture	115,236	63,837	51,399
Computer hardware	123,906	107,581	16,325
Leasehold improvements	40,435	31,830	8,605
	$ 381,675	$ 262,272	$ 119,403

8. Intangible assets

			2007
	Cost	Accumulated amortization	Net
Computer software	**$ 53,512**	**$ 45,739**	**$ 7,773**
Patents	**2,230,121**	**992,000**	**1,238,121**
	$ 2,283,633	**$ 1,037,739**	**$ 1,245,894**

			2006
	Cost	Accumulated amortization	Net
Computer software	$ 47,722	$ 32,004	$ 15,718
Patents	2,351,106	1,301,332	1,049,774
	$ 2,398,828	$ 1,333,336	$ 1,065,492

During the year, patents with a net book value of $214,721 (2006 - $135,655) were written off.

9. Future Income taxes

The significant components of the Group's future income tax asset are summarized as follows:

	2007	2006
Property, plant and equipment	$ 26,425	$ 17,113
Non-capital loss carry forwards	369,060	284,055
Eligible Capital	35,736	41,302
Future income tax asset	431,221	342,470
Less: Valuation Allowance	$ (431,221)	$ (342,470)
	$ -	$ -

The company has recorded a full valuation allowance against the future tax assets due to the uncertainty regarding recoverability.

Non-capital losses carry forwards will expire in the following years:
2014 - $100,603
2015 - $343,022
2026 - $401,266
2027 - $427,731

Investment tax credits, in NeuroSpheres Inc., will expire in the following years:
2006 - $405,684
2007 - $69,000

The Group has recorded a valuation allowance against the future tax asset arising from this temporary difference due to the uncertainty regarding recoverability.

10. Long-term debt

At March 31, 2007, the Group's long-term debt included $219,625 (2006 - $223,175) received by NeuroSpheres through the Alberta Heritage Foundation for Medical Research (AHFMR) in accordance with an agreement dated November 3, 1993. The long-term debt also includes funds received by CytoStore of $660,670 (2006 – $391,317) through Western Economic Diversification Canada (WED), in accordance with an agreement dated March 22, 2005, and $251,000 (2006 – $100,000) from AVAC Ltd. in accordance with agreements dated December 21, 2005 and July 2004.

NeuroSpheres debt is non-interest bearing and repayment is contingent upon NeuroSpheres ability to generate gross sales of product and services. As sales are generated, the lesser of $100,000 and 5% of gross sales is to be paid to AHFMR on an annual basis until the principal debt of $219,625 (2005 - $223,175) plus an additional royalty of $250,000 is paid to AHFMR.

AHFMR has the option to convert the outstanding obligation including the debt of $219,625 plus the contingent royalty liability of $250,000 into an equity interest in NeuroSpheres equal to 2.5% of all issued and outstanding shares at the time the option is exercised. The option value was deemed to be nominal at the grant date.

CytoStore's debt from WED is interest bearing and repayment is contingent upon CytoStore's ability to generate gross sales of product. CytoStore is required to pay ten (10) annual installments equal to 5% of all gross revenue in excess of $2,500,000 received by CytoStore until the total amount contributed by WED is repaid. The initial installment is due on May 31, 2009 for the fiscal year ended March 31, 2009 and the final installment will be due May 31, 2018 for the fiscal year ended March 31, 2018. However, if in any year CytoStore's revenues are $2,500,000 or less, the installment payment required for that year will be nil. To date, no amount has been repaid. Interest on the debt is set at the rate of three percent above the minimum rate at which the Bank of Canada is prepared to make loans as at the date the payments are due. The interest is compounded monthly on any amount that remains unpaid 30 days after the date on which the payment was due. In the event of default, Cytostore is required to repay any contributions received to date, or transfer any assets it has acquired through the proceeds of the contribution to a third party as directed by WED, or dispose of assets at fair market value and provide WED with the related proceeds.

For the agreement dated December 2005, CytoStore is required to repay two times the gross amount invested by AVAC Ltd. (to a maximum of $647,500). Repayment is required in the form of a royalty from net sales and net sub-licensing revenue received from sales of Organelle Purification Kits that utilize the Protein "A" oil body technology. Royalty payments will commence as follows: 0% of net sales and net-sub licensing revenue received to June 30, 2007 and 5% of net sales and net-sub licensing revenue received thereafter. The repayable amount is not forgivable. In the event of default, Cytostore is to repay the cumulative amount of all advances plus 20% compounded annually from the date of each advance to a maximum of two times the original advances less royalties paid to date, or AVAC has the right to acquire all Intellectual Property Rights from Cytostore at no additional cost.

For the agreement dated July 2004, the terms state that twice the funded amount of $25,000 is to be repaid unless secondary financing is obtained within two years resulting in just the original funded amount to be repaid. Since AVAC provided additional funding for this project in December 2005 (see above), the grant amount owed to be repaid is $25,000.

11. Long-term note payable

As part of the reorganization that took place on April 1, 2005, the University of Calgary transferred its shares in old UTI to 6325041 Canada Ltd. in exchange for a promissory note in the amount of $9,000,000 (the "Principal Amount") and a nominal number of shares. The note bears interest on the Principal Amount outstanding from time to time at a rate per annum equal to 6%. The interest shall be paid in cash annually in arrears on or before July 1 of each year in respect of the prior 12 month period commencing on April 1 and ending on March 31. However, the University of Calgary, in its sole and absolute discretion may waive payments of interest in any given year as long as the Principal Amount is outstanding or may accept securities of UTI in lieu of cash payment in any given year as long as the Principal Amount is outstanding. The Principal Amount must be paid to the University of Calgary within 15 days of the University of Calgary making a written demand. The Company received a letter from the University of Calgary confirming that repayment would not be requested within 366 days.

12. Share capital

University Technologies International Inc.

(a) Authorized

One Class "A" common share
Unlimited number of Class "B" voting preferred shares

(b) Outstanding

		2007		2006
Common shares				
Number of Shares		1		1
Amount	$	1	$	1

UTI Limited Partnership

(a) Partnership Units Authorized

There is no restriction on the number of Class A Preferred Units and Class B Units that a Limited Partner is entitled to hold in the Limited Partnership (subject to the maximum number available, which may be increased or decreased at the sole discretion of the General Partner) pursuant to the Limited Partnership Agreement, as outlined in the Units and Partner Status.

(b) Partnership Units Outstanding

		2007	2006
Class A Preferred Units (non-voting)			
Number of Units		1	1
Amount	$	4,542,197	4,542,197
Class B Units (voting)			
Number of Units		1	1
Amount	$	100	100

13. Commitments and Contingency

Lease

The Group signed a new five year lease agreement on November 21, 2005. The Group is committed to minimum operating lease payments, per year ending, under the terms of premises leases as follows:

March 31, 2008 -	$87,845
March 31, 2009 -	$75,814
March 31, 2010 -	$79,110
December 31, 2010 -	$59,333

Equity Incentive Plan

In the event a disposition of an equity holding occurs in an investment which generates a realized capital gain and which is subject to the Equity Incentive Plan ("EIP"), such capital gain may be reduced by up to 20% as a result of incentive pay to EIP participants. As at March 31, 2007, $102,920 (2006 - $96,778) has been accrued relating to current amounts owed under the EIP based on sales of equity during the year.

14. Related party transactions

During the year, the Group was involved in the following transactions with the University of Calgary:

	2007	2006
Client contract revenue	$ -	$ 75,000
Other revenue	12,401	191,019
Product development expense	214,140	6,367
Other services included in operating expense	71,070	35,693
Royalty payments	27,981	32,938
Reagent production costs	7,802	11,710
Project expenditures	2,324	188,436
Interest on note payable *(note 11)*	540,000	540,000
Other	-	5,779

At March 31, 2007, accounts payable included $109,331 (2006 - $141,710) due to the University of Calgary related to the above transactions. These transactions were entered into on the same terms and conditions as transactions with non-related parties and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Defined contribution plans

The Group maintains voluntary defined contribution plans for its eligible full-time and part-time employees. The Group will match and contribute up to a maximum of 4% of an employee's gross salary to an RRSP. This contribution is based on the executive level of the employee, length of service of the employee and the amount the employee contributes. The Group also contributes up to 3% of an employee's gross salary to a pension plan. The Group contributed a total of $59,817 in the fiscal year 2007 (2006 - $60,256), of which the pension expense for 2007 was $39,943 (2006 - $25,595).

16. Expense reimbursements

Expense reimbursements consist of:

	2007	2006
Government Assistance		
Government of Alberta	$ 676,283	$ 138,222
Government of Canada	59,752	3,104
	736,035	141,326
Other reimbursements	16,649	101,447
	$ 752,684	$ 242,773

17. Changes in non-cash working capital and restricted cash

	2007	2006
Accounts receivable	$ 508,163	$ (503,863)
Income tax refund receivable	6,093	86,907
Prepaid expense	213	(11,804)
Inventory	7,397	6,335
Restricted cash	(414,498)	(141,232)
Accounts payable and accrued liabilities	72,624	246,018
Deferred revenue	414,498	141,232
	$ 594,490	$ (176,407)

18. Budget

The March 31, 2008 budget was approved by the Board of Directors on April 19, 2007 and the March 31, 2007 budget was approved by the Board of Directors on March 21, 2006.

19. Financial instruments

(a) Fair value

Financial instruments are comprised of cash and cash equivalents, accounts receivable, investments, restricted cash and cash equivalents, accounts payable and accrued liabilities, and long-term debt. The fair value of monetary assets and liabilities, except investments and long-term debt, is not considered to be materially different from their stated values, due to the relatively short period to maturity of all significant balances. The fair market value of the investments has been disclosed in Note 6(b). The long-term debt balance relating to AHFMR does not currently have fixed repayment terms; however the long-term debt balance with WED and AVAC Ltd. have repayment terms based on gross revenue. It is not possible to determine fair value of these financial instruments at March 31, 2007. Financial derivative instruments are not used by the Group.

(b) Credit and foreign currency risk

The Group is not exposed to significant credit risk as it sells mainly to a diverse group of established distributors and users. Foreign currency risk is not considered to be significant as the majority of the Group's sales are in Canadian dollars.

(c) Interest rate risk

The Group is exposed to interest rate risk in relation to interest income earned on cash and cash equivalents. At March 31, 2007, the increase or decrease in earnings for each 1% change in interest rates earned on cash and cash equivalents amounts to approximately $38,000 per annum before tax (2006 – $36,000).

Schedule 1

University Technologies Group

(previously University Technologies International Inc.)
Combined Schedule of Net Licensing and Royalty Revenue
For the years ended March 31

	2006		
	Budget *(Note 18)*	**Actual**	Actual
Gross revenue from licensing and royalty agreements	3,406,932	**4,489,829**	3,587,679
Distribution to other parties under licensing and royalty agreements			
Inventors		**2,252,311**	1,773,663
Client institutions		**37,734**	28,566
	1,865,514	**2,290,045**	1,802,229
Net licensing and royalty revenue	$ 1,541,418	**2,199,784**	1,785,450

University Technologies Group Schedule 2

(previously University Technologies International Inc.)

Combined Schedule of Net Product Development Revenue (Expense)

For the years ended March 31

	2007		2006
	Budget *(Note 18)*	**Actual**	Actual
Revenue earned under product development agreements	$ 241,839	$ **278,339**	$ 316,157
Product development expense	888,140	**273,774**	347,945
Net product development revenue (expense)	$ (646,301)	$ **4,565**	$ (31,788)

University Technologies Group

Schedule 3

(previously University Technologies International Inc.)
Combined Schedule of Net Sales Revenue
For the years ended March 31

	2007		2006
	Budget *(Note 18)*	**Actual**	Actual
Sales revenue	$ 401,446	**$ 185,074**	$ 171,270
Cost of sales	15,600	**32,972**	27,074
Net sales revenue	$ 385,846	**$ 152,102**	$ 144,196

University Technologies Group

Schedule 4

(previously University Technologies International Inc.)
Combined Schedule of Personnel Costs
For the years ended March 31

	2007					2006	
	Number of individuals	Base Salary (1) $	Other Cash Benefits (2) $	Benefits and allowances (3) $	Total $	Number of individuals	Total $
Chairman	1	-	-	-	-	1	36,000
Other directors	14	-	-	-	-	13	-
Senior employees:							
President	1	204,311	108,147	13,011	325,469	1	301,477
VP Business Development	1	132,860	19,929	7,455	160,244	1	76,330
VP Finance (4)	2	131,606	15,020	5,136	151,762	1	114,555

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include bonuses, equity incentive compensation, vacation payments, overtime, and lump sum payments.

(3) Benefits and allowances include the Group's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, health care, dental coverage, group life insurance and pension.

(4) The Vice President Finance and Administration went on maternity leave on July 2006 and will return July 2007. The Group hired an Acting Vice President Finance and Administration in June 2006 for 13 months to cover the maternity leave.

OLYMPIC OVAL/ANNEAU OLYMPIQUE

Financial Statements

For the year ended March 31, 2007

Auditor's Report

Financial Statements:

- Statement of Base Operating Costs and Revenue
- Statement of Expenditures Incurred in Providing Programming for High Performance Athletes and Fund Balance
- Statement of Revenue and Expense for the Coaching Services Program
- Statement of Reserves
- Notes to Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the University of Calgary and the Board of Directors of Calgary Olympic Development Association

I have audited the statements of base operating costs and revenue of the Olympic Oval/Anneau Olympique, expenditures incurred in providing programming for high performance athletes and fund balance, revenue and expense for the coaching services program, and reserves for the year ended March 31, 2007. This financial information is the responsibility of the management of the University of Calgary. My responsibility is to express an opinion on this financial information based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

The Oval Long-term Operating Agreement requires that all revenues received and expenses incurred by the University in connection with the maintenance, management and operation of the Olympic Oval be included in the financial information. However, the statement of base operating costs and revenues does not include all the revenues and expenses arising from the University's use of the Oval facility. The amount of these excluded revenues and expenses is not reasonably determinable.

In my opinion, except for the exclusion of the revenues and expenses referred to in the preceding paragraph, this financial information presents fairly, in all material respects:

- the base operating costs and revenues;
- the expenditures incurred in providing programming for high performance athletes and fund balance;
- the revenue and expense for the coaching services program; and
- the reserves of the Olympic Oval/Anneau Olympique

for the year ended March 31, 2007 in accordance with Article 7.01a of the Oval Long-term Operating Agreement, December 31, 1987 and the Oval Long-term Operating and Amending Agreement, April 1, 1995.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 15, 2007

Olympic Oval/Anneau Olympique
Statement of Base Operating Costs and Revenue
For the year ended March 31, 2007

	2007 $ Budget (Note 8)	2007 $ Actual	2006 $ Actual
Base Operating Costs (Note 2)			
Salaries and benefits	2,009,968	1,931,804	1,783,185
Utilities and maintenance	1,424,647	1,245,005	1,082,012
Supplies and advertising	155,000	337,970	361,878
Central administration support	36,050	32,448	32,448
Purchased services	171,111	182,419	198,998
Telecommunications and postage	35,000	38,928	43,455
Travel and hosting	50,000	45,528	62,722
Insurance	22,660	25,118	21,883
Legal and audit	15,000	18,115	6,220
	3,919,436	3,857,335	3,592,801
Change in Vacation accrual (Note 2)	-	7,500	(14,348)
Gross Revenue (Note 2)	(695,636)	(938,760)	(930,592)
Net base operating costs before other	3,223,800	2,926,075	2,647,861
Coaching services program deficiency/(excess) of revenue over expense	29,472	(59,264)	43,318
High performance programming	-	100,000	100,000
Operating costs to be funded	3,253,272	2,966,811	2,791,179
Funded by:			
University of Calgary (Note 4)	1,084,424	1,054,050	992,733
Calgary Olympic Development Association (Note 4)	2,168,848	1,912,761	1,798,446
	3,253,272	2,966,811	2,791,179

The accompanying notes are part of these statements.

Olympic Oval/Anneau Olympique
Statement of Expenditures Incurred in Providing Programming for High Performance Athletes and Fund Balance
For the year ended March 31, 2007

	2007 $	2006 $
Funds available at beginning of year	327,448	288,146
Less expenditures: (Note 5)		
Athlete support services	-	16,500
Transfer to coaching services program	-	30,000
Research funding	-	4,322
Research salaries and benefits	-	5,000
Research equipment and supplies	-	4,876
	-	60,698
Add University of Calgary allocation of revenues earned for high performance athletes programming	100,000	100,000
Funds available at end of year for expenditure on high performance athletes programming	427,448	327,448

The accompanying notes are part of these statements.

Olympic Oval/Anneau Olympique
Statement of Revenue and Expense
For the Coaching Services Program
For the year ended March 31, 2007

	2007			2006		
	Other Programming $	High Performance Athletes $	Total $ (Note 3)	Other Programming $	High Performance Athletes $	Total $ (Note 3
Revenue:						
Grants and sponsorships	65,941	1,237,813	1,303,754	83,051	858,484	941,535
Camps and competitions	246,224	113,468	359,692	277,047	43,955	321,002
Coaching and other fees	128,193	404,723	532,916	240,535	365,001	605,536
General	48,508	51,711	100,219	58,017	35,599	93,616
Transfer from programming for high performance athletes	-	-	-	-	30,000	30,000
	488,866	1,807,715	2,296,581	658,650	1,333,039	1,991,689
Expense:						
Coaching salaries & benefits	150,294	1,120,541	1,270,835	200,743	963,069	1,163,812
Specialist sport services	112,993	149,951	262,944	99,704	123,420	223,124
Travel, camps, competitions	76,574	149,228	225,802	78,483	166,126	244,609
Advertising	307	6,820	7,127	2,716	2,864	5,580
Supplies	53,985	93,140	147,125	137,264	136,047	273,311
Meeting expense	5,623	66,676	72,299	8,806	15,123	23,929
Bursaries	-	232,389	232,389	16,200	73,000	89,200
Rentals	19,880	6,478	26,358	87	926	1,013
Memberships	1,586	5,168	6,754	1,761	4,052	5,813
Other	-	-	-	223	74	297
	421,242	1,830,391	2,251,633	545,987	1,484,701	2,030,688
Excess (deficiency) of revenue over expense	67,624	(22,676)	44,948	112,663	(151,662)	(38,999
Change in Vacation accrual (Note 2)	6,262	8,054	14,316	(1,701)	(2,618)	(4,319
Excess (deficiency) of revenue over expense – net to be funded	73,886	(14,622)	59,264	110,962	(154,280)	(43,318

The accompanying notes are part of these statements.

Olympic Oval/Anneau Olympique
Statement of Reserves
For the year ended March 31, 2007

	Building Reserve		Special Equipment Reserve	
	2007 $	2006 $	2007 $	2006 $
Capital renewal provision	212,586	192,741	550,377	34,657
Interest	33,063	27,784	22,715	14,513
	245,649	220,525	573,092	49,170
Capital expenditures	-	63,884	1,552,680	45,708
Less funded by CODA	-	(42,589)	(1,03[illegible]20)	(30,473)
	-	21,295	517,560	15,235
Increase (decrease) in reserve for the year	245,649	199,230	55,532	33,935
Reserve balance at beginning of year	860,527	661,297	539,337	505,402
Reserve balance at end of year (Note 6)	1,106,176	860,527	594,869	539,337

The accompanying notes are part of these statements.

1 Purpose

The Olympic Oval/Anneau Olympique ("the Oval") was constructed by the University of Calgary (the "University") to serve as the speed skating venue for the 1988 Olympic Winter Games, with capital funding provided entirely by the Government of Canada. It is now operated as a legacy of the Games for the benefit of high performance athletes, the general public, and students and researchers of the University.

The Oval is operated by the University under the Oval Long-term Operating Agreement, December 31, 1987 and the Oval Long-term Operating Amending Agreement, April 1, 1995, (the Agreements), between the University, the Government of Canada and the Calgary Olympic Development Association ("CODA").

The purpose of the Oval as defined in the Oval Long-term Operating Agreement is to:

- recruit, train and coach High Performance Athletes;
- provide the University with a teaching, training, coaching, research, competition, and recreation facility;
- assist National and Provincial sport associations with their programs for high performance athletes at the Oval;
- assist the University and CODA related sports clubs to recruit, train, coach and compete in high performance sports utilizing the Oval;
- make the Oval available for international, national and regional games, competitions and athletic events; and
- provide the Oval as an accessible sports and recreation facility.

1 Purpose (continued)

An Olympic Endowment Fund (OEF) was created in December 1987. The distributable income from the fund is used to pay, among other costs, 2/3 of the Base Operating Cost less 2/3 of the Gross Revenue of the Oval and to appropriate to the Oval OEF Reserve 2/3 of the capital renewal provision for the Olympic Oval. This appropriation is held by the Calgary Olympic Development Association. Two thirds of the capital costs related to the Oval are funded out of the Oval OEF Reserve.

2 Significant Accounting Policies and Reporting Practices

These statements have been prepared in accordance with the requirements of the Agreements. The following definitions apply:

a) *Base Operating Costs*

Base operating costs are the aggregate of annual costs and expenses directly applicable to the maintenance, management and operation of the Oval, but exclude the costs of Programming and Capital Renewal Cost. Capital Renewal Costs are expenditures incurred for the repair, upgrading and replacement of Building, Building Equipment and Special Equipment.

b) *Gross Revenue*

Gross revenue is defined as revenue received from the use of the Oval including, without limitation, user fees, concessions, billboard advertising, scoreboard advertising, pro-shop(s), locker rentals, building tours, souvenirs, sponsorships, TV rights, and radio rights except where gross revenues are directly linked to programming or other obligations where those gross revenues have an associated expenditure requirement, then only the net revenue is included.

c) *Funding*

Funding has been calculated in accordance with the agreement (See Note 4). Vacation pay is accrued at year end and funded when vacation is taken.

2 Significant Accounting Policies and Reporting Practices (continued)

d) *High Performance Programming*

High performance programming includes the revenue and expenses that are incurred to support nationally carded athletes and those athletes at a developmental level whose training is geared to becoming such an athlete. High performance programming includes the staging of international and national competitions.

e) *Other Programming*

Other programming includes the revenue and expenses that are incurred to support developmental athletes and includes all developmental camps and competitions. Other programming also includes the revenue and expenses for the Olympic Oval Cycling Program.

f) *Reserves*

Reserves have been established for the building and for special equipment. Reserves are calculated in accordance with the agreement (See Note 6).

3 Value in Kind Contributions

The Olympic Oval received services and products (Value in Kind contributions) valued at $194,434. These are recorded at fair value in the current year actual revenues and expenses. Value in Kind contributions are not included in the current year budgeted revenues and expenses.

4 Funding

Funding is calculated in accordance with the agreement. The main elements are:

- The University funds 1/3 of the net base operating costs.
- The University funds 1/3 and CODA funds 2/3 of the coaching program deficiency except for the cycling program.
- The University funds 100% of the program deficiency for the cycling program.
- The University is allocated 1/3 of the gross revenue and is required to

4 Funding (continued)

transfer $100,000 of the gross revenue allocated to the University to fund high performance athletes.

- CODA funds 2/3 of the base operating costs less 2/3 of the gross revenue.

Funding has been calculated as follows:

University of Calgary	2007 $	Share	2007 Funding $	2006 $	2006 Funding $
Net base operating costs	2,926,075	1/3	975,358	2,647,861	882,620
Coaching services program deficiency/(excess)	(56,934)	1/3	(18,978)	49,807	16,602
Cycling program deficiency/(excess)	(2,330)	100%	(2,330)	(6,489)	(6,489)
University of Calgary share of revenue allocated to high performance athletes programming from gross revenue	100,000	100%	100,000	100,000	100,000
	2,966,811		1,054,050	2,791,179	992,733

CODA	2007 $	Share	2007 Funding $	2006 $	2006 Funding $
Net base operating costs	2,926,075	2/3	1,950,717	2,647,861	1,765,241
Coaching services program deficiency/(excess)	(56,934)	2/3	(37,956)	49,807	33,205
Cycling program deficiency/(excess)	(2,330)	-	-	(6,489)	-
University of Calgary share of revenue allocated to high performance athletes programming from gross revenue	100,000	-	-	100,000	-
	2,966,811		1,912,761	2,791,179	1,798,446

5 High Performance Programming and Fund Balance

The unexpended portion of the funds is held in an account by the University of Calgary for the Oval. During fiscal year 2006/2007 this High Performance Fund balance was temporarily frozen until a new committee could be struck to administer the High Performance research program. The former chair of the committee was on sabbatical. A new Dean commenced duties with the Faculty of

5 High Performance Programming and Fund Balance (continued)

Kinesiology and formed a new committee to administer the fund and its high performance sport research initiatives.

6 Reserves

The University is required to contribute one-third of the Capital Renewal Provisions for the building and the special equipment reserves, which are defined as follows:

Building Reserve

- A reserve established to fund expenditures for repair, upgrading and replacement of Building and Building Equipment by an annual provision of $370,000 subject to adjustment by agreement of the parties escalated annually in proportion to the increase in the Construction Price Index, the aggregate of which cannot exceed $3,000,000 escalated annually in proportion to the increase in the Construction Price Index.

Special Equipment Reserve

- A reserve established to fund expenditures for repair, upgrading and replacement of Special Equipment by an annual provision calculated by Calgary Olympic Development Association and the University to maintain a reserve balance of not less than $1,000,000 expressed in 1989-90 dollars, subject to adjustment by agreement of the parties escalated annually in proportion to the Construction Price Index.

The Non-residential Building Construction Price Index for Calgary is used to calculate the annual adjustment required under the Agreements for both reserves. The increase in the index from the prior year is applied to the annual provision for the Building Reserve. The increase in the index is also applied to the 1995-96 value for the Special Equipment Reserve to determine the minimum reserve balance required.

6 Reserves (continued)

All capital renewal costs are initially paid for by the Oval. The Calgary Olympic Development Association reimburses the Oval for two-thirds of all capital renewal costs. One-third of the costs are funded by the University.

The University's share of the reserve balances are held by the University of Calgary. These statements reflect only the balance of reserves held by the University.

7 Coaching Services Program

The coaching services program includes revenue earned and expenses incurred in providing programming to both high performance and other athletes. Revenue and expenses under this program are classified as high performance when they have been received or incurred to support nationally carded athletes including those that may be at a developmental level. Revenue and expenses incurred to support other athletes have been classified as other programming on the statement of revenue and expense for the coaching services program.

8 Budget

The 2007 base operating budget was recommended for approval by the Olympic Endowment Fund Allocations Committee on February 24, 2006.

9 Comparative Figures

Certain comparative figures have been reclassified to conform to the current year presentation.

10 Approval of Statements

These statements were approved by management.

UNIVERSITY OF LETHBRIDGE

Financial Statements

For the year ended March 31, 2007

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flow
- Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the University of Lethbridge

I have audited the statement of financial position of the University of Lethbridge as at March 31, 2007 and the statement of operations, changes in net assets, and cash flows for the year then ended. The financial statements are the responsibility of the management of the University. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 18, 2007

University of
Lethbridge

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31
(thousands of dollars)

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and short-term investments (Note 3)	$ 34,978	$ 28,528
Accounts receivable	8,245	5,895
Inventories	447	432
Prepaid expenses	787	665
	44,457	35,520
INVESTMENTS (Note 4, 5)	70,180	54,102
PLEDGES RECEIVABLE - Long-term portion (Note 6)	3,358	-
CAPITAL ASSETS AND COLLECTIONS (Note 7)	206,855	185,726
	$ 324,850	$ 275,348
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 9,946	$ 7,528
Employee benefit liabilities (Note 8)	4,107	4,656
Deferred revenue	4,441	4,007
Deferred contributions, research and other (Note 10)	11,001	8,192
Current portion of long term obligations (Note 11)	430	122
	29,925	24,505
LONG TERM LIABILITIES		
Long term obligations (Note 11)	4,309	3,654
Employee benefit liabilities (Note 8)	6,343	6,168
Deferred contributions, research and other (Note 10)	573	577
Deferred contributions, capital (Note 10)	20,625	12,585
	31,850	22,984
UNAMORTIZED DEFERRED CAPITAL CONTRIBUTIONS (Note 12)	99,617	91,103
NET ASSETS		
Investment in capital assets and collection	102,499	90,846
Endowments (Note 13)	24,537	13,663
Internally restricted (Note 14)	17,758	16,541
Unrestricted	18,664	15,706
	163,458	136,756
Commitments and Contingencies (Note 20)		
	$ 324,850	$ 275,348

The accompanying notes are part of these financial statements.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31
(thousands of dollars)

	Original Budget	2007	2006
REVENUE			
Grants	$ 79,563	$ 86,517	$ 77,961
Tuition and related fees	33,254	34,442	35,060
Sales of services and products	12,647	13,152	11,860
Miscellaneous	1,660	1,358	1,179
Investment income (Note 15)	2,754	6,265	3,486
Gifts and donations	1,440	728	713
Amortization of unamortized deferred capital contributions (Note 12)	7,610	6,271	6,033
	138,928	148,733	136,293
EXPENSE			
Salaries	80,611	77,452	73,960
Employee benefits	12,929	12,813	11,278
Scholarships, fellowships and bursaries	2,386	2,252	1,978
Supplies and services	13,748	8,424	7,478
Repairs and maintenance	1,882	1,478	1,671
Cost of goods sold	3,134	3,113	3,004
Equipment	2,431	3,327	2,742
Travel	2,270	3,540	3,447
External contracted services	2,775	3,194	2,593
Utilities	2,958	2,645	2,934
Professional fees	479	1,369	911
Interest on long term obligations	1,000	497	414
Insurance	469	432	408
Property taxes	201	111	234
Unrealized loss on write-down investments	-	-	492
Loss (gain) on disposal of capital assets	-	(49)	564
Amortization of capital assets	10,603	12,305	12,087
	137,876	132,903	126,196
EXCESS OF REVENUE OVER EXPENSE	$ 1,052	$ 15,830	$ 10,096

The accompanying notes are part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31
(thousands of dollars)

	2007					2006
	Investment in Capital Assets	Endowments	Internally Restricted	Unrestricted	TOTAL	TOTAL
BALANCE, beginning of year	$ 90,846	$ 13,663	$ 16,541	$ 15,706	$ 136,756	$ 124,853
Excess of revenue over expense	-	-	-	15,830	15,830	10,098
Non-amortizable collection donations	13				13	239
Endowment contributions		8,825			8,825	1,292
Capitalization of previous year's unexpended interest		1,519			1,519	-
Capitalized investment earnings		477			477	274
Transfer to endowments		53		(53)	-	-
Capital asset additions	17,651		(7,603)	(10,048)	-	-
Non-amortizable collection acquisitions	38				38	
Net book value of capital asset disposals	(78)			78	-	-
Amortization	(6,093)			6,093	-	-
Repayment of long term debt	122			(122)	-	
Allocation to internally restricted net assets			8,820	(8,820)	-	-
BALANCE, end of year	$ 102,499	$ 24,537	$ 17,758	$ 18,664	$ 163,458	$ 136,756

The accompanying notes are part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31
(thousands of dollars)

	2007	2006
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Excess of revenue over expense	$ 15,830	$ 10,098
Non-cash transactions		
Amortization of unamortized deferred capital contributions	(6,271)	(6,034)
Amortization of capital assets	12,305	12,087
Loss (gain) on disposal of capital assets	(49)	564
Unrealized loss on write-down of investments	-	492
Increase in long-term employee benefit liabilities	175	623
	21,990	17,830
Increase (decrease) in non-cash working capital (Note 17)	4,144	(476)
	26,134	17,354
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchase of investments (net)	(16,076)	(3,269)
Capital asset additions		
Internally funded	(18,736)	(12,723)
Externally funded	(14,784)	(12,700)
Collection additions	(38)	(8)
Increase in long-term receivable	(3,358)	-
Increase in asset retirement obligation	1,085	-
Proceeds on disposal of capital assets	185	67
	(51,722)	(28,633)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Capital contributions	22,858	20,160
Endowment contributions	8,825	1,292
Capitalized investment earnings	477	274
Long term debt repayments	(122)	(115)
	32,038	21,611
INCREASE IN CASH	6,450	10,332
CASH AND SHORT-TERM INVESTMENTS, beginning of year	28,528	18,196
CASH AND SHORT-TERM INVESTMENTS, end of year	$ 34,978	$ 28,528

The accompanying notes are part of these financial statements.

Note 1 Authority and Purpose

University of Lethbridge operates under the *Post-Secondary Learning Act of Alberta* to provide post-secondary and graduate education and to engage in research and public service. The University is a registered charity, and under section 149 of the *Income Tax Act of Canada*, is exempt from the payment of income tax.

Note 2 Significant Accounting Policies

a) General – GAAP and use of estimates

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, known as GAAP. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using judgments determined by the University's administration. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

b) Revenue Recognition

The financial statements record the following items as revenue - at the following times:

- Unrestricted contributions - when received, or receivable, if the amount can be reasonably estimated and collection is reasonably assured.
- Unrestricted investment income - when earned; this includes interest, dividends, realized gains and losses.
- Revenues received for services and products - when the services or products are provided.
- Tuition fees - when the instruction is delivered.
- Restricted contributions - based on the deferral method.
- Pledges that can be reasonably estimated and where ultimate collection is reasonably assured are recorded as an asset, with the corresponding amount being recorded as gifts and donations revenue, deferred contributions, deferred capital contributions or endowment as applicable. Pledges are disclosed in Note 6.

Restricted contributions – deferral method

Contributions, including investment income on the contributions, that are restricted for purposes other than endowment or capital asset acquisitions, are deferred and recognized as revenue when the conditions of the contribution are met.

Contributions restricted to the acquisition of capital assets with limited life are recorded as deferred contributions when received, and when expended, are transferred to unamortized deferred capital contributions and amortized to revenue over the useful lives of the related assets.

Endowment contributions are recognized as direct increases in endowment net assets. Investment earnings allocated to endowment principal, under agreements with benefactors or the *Post-Secondary Learning Act of Alberta*, are also recognized as direct increases in endowment net assets. Endowment investment earnings that are allocated for spending are recognized as revenue when the conditions of the endowment are met.

Contributions restricted to the acquisition of land and permanent collections are recorded as deferred contributions when received, and when expended, are recognized as direct increases in investment in capital assets and collections.

Note 2 Significant Accounting Policies (continued)

c) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at cost.

d) Investments

Short-term investments are held at the lower of cost or market.

Investments are recorded at cost or amortized cost where applicable. Amortization of premiums or discounts is calculated on a straight-line basis from acquisition date to maturity. Capital gains or losses are recognized in the year of disposal or when there is other than a temporary decline in the value of the investment.

e) Capital Assets and Collections

Capital assets purchased are recorded at cost. In-kind contributions are recorded at fair market value when a fair value can be reasonably determined.

Capital assets, once placed into service, are amortized on a straight-line basis over the assets' estimated useful lives. The estimated useful lives are as follows:

Land improvements	10-25 years	Computer equipment	3-5 years
Buildings – Exterior	40 years	Electrical equipment	20 years
Buildings – Interior	20 years	Software	3-5 years
Leasehold improvements	15 years	Vehicles	6 years
Furnishings and equipment	5-10 years	Learning resources	10 years

Permanent collections are not amortized and consist of works of art.

f) Pension and Other Employee Future Benefit Plans

The University participates in the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit plans that provide pensions for the University's participating employees based on years of service and earnings. Defined contribution plan accounting is applied to these pension plans as the University has insufficient information to apply defined benefit plan accounting. Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits.

The actuarial determination of the accrued benefit obligations for other employee future benefits uses either the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors) or the accumulated benefit method where future salary levels or cost escalations do not affect the amount of employee future benefits.

Actuarial gains (losses) arise from experience different from that assumed or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service of the active employees covered by the non-pension employee future benefit plans ranges from one to seven years.

g) Contributed Services

Volunteers and University staff contribute services each year to assist the University in achieving its mandate. The financial statements do not record the value of these services.

Note 2 Significant Accounting Policies (continued)

h) Fair Value of Financial Instruments

The carrying values of financial assets and financial liabilities approximate fair value unless otherwise disclosed.

i) Credit, Interest Rate and Market Risk

The University's accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

Interest rate risk is the risk to the University's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates.

Market risk is the risk to the University's earnings that arises from the fluctuations and degree of volatility in the market value of its long term investments.

j) Foreign Currency Translation

Financial assets and liabilities recorded in foreign currencies are translated to Canadian dollars at the year-end exchange rate. Revenues and expenses are translated at average weekly exchange rates. Gains or losses from these translations are included in operations.

k) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period incurred if a reasonable estimate of fair value can be made.

Upon initial recognition of an asset retirement obligation, the same amount is recognized as an increase in the carrying amount of the related asset. The asset retirement cost is allocated to expense over its estimated useful life or as the cost of retiring the asset is incurred, if applicable.

Note 3 Cash and Short-term Investments

Cash and short-term investments are invested in high quality Canadian money market instruments. The carrying value of cash and short-term investments approximate fair value.

	2007 Cost	Effective Yield	2006 Cost	Effective Yield
Cash and cash equivalents	$ 17,278	3.95%	$ 16,305	2.66%
Treasury bills	16,032	4.20%	10,856	3.50%
Bonds	1,668	4.30%	1,367	5.50%
	$ 34,978		$ 28,528	

Short-term investments are held on average for less than one year and bonds are held on average less than two years. Bonds in the portfolio have maturity dates between one and eight years, with an average maturity date of 3.1 years.

Bond investments must have a rating of BBB-plus or better and the short-term portfolio must be rated at least R-1, mid (or equivalent) as per the Dominion Bond Rating Service.

Note 4 Investments

The long-term investment portfolio includes endowment assets as well as the portion of non-endowment assets that will not be required for spending in the short-term. The primary objective of this portfolio is a rate of return that, in real terms, exceeds the endowment spending allocation at an acceptable risk level.

	2007 Book Value	2007 Market Value	2006 Book Value	2006 Market Value
Cash and cash equivalents	$ 12,053	$ 12,050	$ 3,035	$ 3,036
Bonds	21,965	22,556	18,998	19,819
Canadian equity	14,079	24,709	12,662	21,207
Foreign equity	21,358	25,184	18,968	21,429
Other investments	725	725	439	439
	$ 70,180	$ 85,224	$ 54,102	$ 65,930

Bond investments must have a rating of BBB-plus or better and the short-term portfolio must be rated at least R-1, mid (or equivalent) as per the Dominion Bond Rating Service.

As at March 31, 2007, the average effective yields and the terms to maturity are as follows:

- Cash and short term notes: 3.98% (2006 – 2.44%); term to maturity: less than one year.
- Government and corporate bonds: 4.40% (2006 – 4.01%); term to maturity: range from less than one year to more than 34 years.
- Canadian equity realized return: 8.01% (2006 – 12.62%) Market return 13.70% (2006 – 22.91%)
- Foreign equity realized return: 5.23% (2006 – 0.76%) Market return 20.95% (2006 – 6.71%)

Note 5 Interest in Joint Venture

The University has a one-third joint venture interest in Campus Alberta Applied Psychology: Counselling Initiative. Three Alberta universities formed the joint venture to develop and deliver a Collaborative Alberta Graduate Counselling Program.

The University's equity in the accumulated earnings of the joint venture at March 31, 2007 is $597 (2006 - $304) and is included in Other Investments (Note 4).

At March 31, 2007 the University's share of the joint venture's assets and liabilities are:

	2007	2006
Current assets [(1)]	$ 647	$ 577
Capital assets	2	3
	$ 649	$ 580
Current liabilities	$ 50	$ 273
Unamortized deferred capital contributions	1	1
Investment in capital assets	1	2
Joint venture interest	597	304
	$ 649	$ 580

Note 5 Interest in Joint Venture (continued)

[1] included in current assets is a receivable of $546 (2006 - $398) from the University of Lethbridge for operating funds that are being administered on behalf of the joint venture.

The University's share of joint venture earnings for the year ending March 31, 2007 is $382 (2006 - $92) which is one-third of the net of total revenues of $3,043 (2006 - $2,007) less total expenses of $1,896 (2006 -$1,730).

Note 6 Pledges Receivable

	2007	2006
1st Choice Savings and Credit Union Ltd.	$ 2,250	$ -
University of Lethbridge students	2,500	-
	4,750	-
Discount to present value	(992)	-
Current portion included in accounts receivable	(400)	-
	$ 3,358	$ -

The 1st Choice Savings and Credit Union Ltd. is the naming sponsor for the 1st Choice Savings Centre for Sport and Wellness and is contributing a total of $2,250 over a 15-year period. University of Lethbridge students are contributing $2,500 towards the construction of the 1st Choice Savings Centre for Sport and Wellness, to be collected over a period of approximately 10 years. These contributions have been discounted to their present value using market interest rates. The revenue from these contributions will be recognized in the financial statements as the building is amortized. The discount on the contributions will be recognized in future years as interest income.

In addition to the pledges above, there is $4,340 for capital projects and scholarships that have not been recorded in the financial statements.

Note 7 Capital Assets and Collections

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Buildings and land improvements	$ 224,351	$ 73,359	$ 150,992	$ 197,562	$ 66,864	$ 130,698
Equipment and furnishings	54,880	41,362	13,518	52,366	39,202	13,164
Library materials	27,008	18,794	8,214	25,405	17,621	7,784
Capital assets subject to amortization	306,239	133,515	172,724	275,333	123,687	151,646
Land	638		638	638		638
	306,877	$ 133,515	173,362	275,971	$ 123,687	152,284
Permanent collections	33,493		33,493	33,442		33,442
Capital assets and collections	$ 340,370		$ 206,855	$ 309,413		$ 185,726

Included in buildings and land improvements is $9,310 (2006 - $19,645) recorded as construction in progress, which is not amortized as the assets are not yet available for use.

Acquisitions during the year included in-kind contributions (such as learning resources and equipment) in the amount of $725 (2006 - $268).

Note 8 Employee Benefit Liabilities

	2007	2006
Vacation and overtime pay	$ 3,128	$ 3,668
Maternity and parental leaves	111	209
Other payroll liabilities	134	151
Early retirement benefit plans	343	560
Senior administrative leaves	5,064	4,839
Supplementary benefit plan	1,199	921
Long-term disability benefits	471	476
	10,450	10,824
Less current portion	(4,107)	(4,656)
	$ 6,343	$ 6,168

Note 9 Pension and Other Employee Future Benefit Plans

The University has a number of defined benefit plans that provide pension, other retirement and post-employment benefits to most of its employees. These include the Early Retirement Plan, the Senior Administrative Leave Plan, Long-term Disability Plans and pension plans. In addition, the University provides a supplementary benefit plan to some employees, which is accounted for as a defined contribution plan.

The Early Retirement Plan pays a fixed amount annually based on the salary and benefits in effect for each member at the date of retirement. This plan is closed to new members and no future service benefits are being accrued.

The Senior Administrative Leave Plan provides for certain senior administrators to accrue an entitlement to a leave of absence, for the purpose of professional development, at the end of their service in an administrative position. Upon leaving the post, the member's salary and benefits in effect at the end of the service are paid for the duration of the leave and are indexed at a rate determined by the University.

The Long-Term Disability Plans provide pension and non-pension benefits after employment, but before retirement. The University pays for the non-insured portion of the disability benefits.

The Supplementary Benefit Plan provides a termination benefit to certain employees over and above the benefits provided by the Universities Academic Pension Plan. The University contributes annually to the Supplementary Benefit Plan based on the employee's salary. Each employee's account is also adjusted annually by the realized rate of return on the University's long-term investments.

Total cash payments for employee future benefits for 2007, consisting of cash payments directly to beneficiaries for unfunded benefit plans and cash contributed to its multi-employer defined benefit plans, were $6,794 (2006 - $5,826).

Note 9 Pension and Other Employee Future Benefit Plans (continued)

a) Benefit Plans

The University measures its accrued benefit obligations for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the employee future benefit plans was performed as of March 31, 2007.

The benefit plan obligations are as follows:

	2007				2006			
	Supplementary Benefit Plan	Early Retirement Plan	Senior Administrative Leave	Long Term Disability Plan	Supplementary Benefit Plan	Early Retirement Plan	Senior Administrative Leave	Long Term Disability Plan
Accrued benefit obligation:								
Balance, beginning of year	$ 921	$ 560	$ 4,839	$ 588	$ 695	$ 850	$ 3,996	$ 462
Current service cost	238	-	793	61	206	-	843	116
Past service cost	20	-	-	-	15	-	-	-
Interest cost	48	16	189	21	45	24	166	19
Benefits paid	(28)	(229)	(489)	(97)	(40)	(316)	(188)	(85)
Actuarial loss (gain)	-	(4)	(268)	103	-	2	22	76
Balance, end of year	1,199	343	5,064	676	921	560	4,839	588
Plan assets	-	-	-	-	-	-	-	-
Funded status - plan deficit	1,199	343	5,064	676	921	560	4,839	588
Unamortized net actuarial gain (loss)	-	-	-	(205)	-	-	-	(112)
Accrued benefit liability	$ 1,199	$ 343	$ 5,064	$ 471	$ 921	$ 560	$ 4,839	$ 476

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations are as follows:

	2007				2006			
	Supplementary Benefit Plan	Early Retirement Plan	Senior Administrative Leave	Long-Term Disability Plan	Supplementary Benefit Plan	Early Retirement Plan	Senior Administrative Leave	Long-Term Disability Plan
Discount rate	n/a	4.50%	4.50%	4.50%	n/a	3.50%	3.50%	3.50%
Rate of compensation increase	n/a	n/a	6.00%	5.00%	n/a	n/a	6.00%	5.00%
Assumed benefit cost trend rates:								
Pension contributions	n/a	n/a	n/a	5.00%	n/a	n/a	n/a	5.00%
Benefits	n/a	4.50%	4.50%	4.50%	n/a	4.50%	4.50%	4.50%
Average remaining service period of active employees	7 years	1 year	5 years	4 years	7 years	2 years	6 years	5 years

b) Pension plans

The University participates in the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees, based on years of service and earnings. The pension expense recorded in these financial statements is equivalent to the University's annual contributions payable of $5,934 for the year ended March 31, 2007 (2006 - $5,197) including UAPP contributions of $4,963 (2006 - $4,327) and PSPP contributions of $971 (2006 - $870).

At December 31, 2006, the Universities Academic Pension Plan reported an actuarial deficiency of $409,128 (2005 - $537,415) consisting of a pre-1992 deficiency ($399,521) and a post-1991 deficiency ($9,607). An actuarial valuation of the UAPP was carried out as at December 31, 2004 and the liability was extrapolated to December 31, 2006. The UAPP undertakes an actuarial valuation of the Plan every two years. The unfunded liability for service prior to January 1, 1992 is being financed by additional contributions of 1.25% (2005 - 1.25%) of salaries by the Province of Alberta with employees and employers equally sharing the balance of the contributions of 2.28% (2005 - 2.28%) of salaries required to eliminate the unfunded liability on or before December 31,

Note 9 Pension and Other Employee Future Benefit Plans (continued)

2043. The actuarial valuation shows that the present value at December 31, 2004 of the Province of Alberta's obligation for the future additional contributions was $183,400. Effective July 1, 2005, the unfunded liability for service after December 31, 1991 is being financed by special payments of 2.64% (2005 - 2.64%) of salaries shared equally between employees and employers over 15 years from the date of valuation until December 31, 2017. The special payments will decrease to 1.38% for the period January 1, 2018 to December 31, 2019.

At December 31, 2006, the Public Service Pension Plan reported an actuarial surplus of $153,024 (2005 - actuarial deficiency of $187,704). An actuarial valuation of the PSPP was carried out as at December 31, 2005 and was then extrapolated to December 31, 2006.

Note 10 Deferred Contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balances are as follows:

	2007			2006
	Capital	Research and Other	Total	Total
Balance, beginning of the year	$ 12,585	$ 8,769	$ 21,354	$ 15,582
Grants and donations received	20,879	17,218	38,097	30,855
Recognized as revenue	-	(10,910)	(10,910)	(12,383)
Transfer to endowments	-	(1,519)	(1,519)	-
Non-amortizable collection additions	(38)	-	(38)	-
Transferred to unamortized deferred capital contributions	(12,801)	(1,984)	(14,785)	(12,700)
Balance, end of the year	20,625	11,574	32,199	21,354
Less amounts included in current liabilities	-	(11,001)	(11,001)	(8,192)
	$ 20,625	$ 573	$ 21,198	$ 13,162

Note 11 Long Term Obligations

	Rate of Interest	Original Advance	Amount Outstanding 2007	2006
Alberta Capital Finance Authority debenture for student residences, due April 15, 2023	6%	4,000	$ 3,654	$ 3,776
Asset retirement obligation			1,085	-
			$ 4,739	$ 3,776
Current portion			(430)	(122)
			$ 4,309	$ 3,654

The debenture is secured by cash flows generated from the Residence Park, Aperture Park and University Hall residences. Interest on the debenture of $220 was charged to expense in fiscal 2007 (2006 - $227).

Note 11 Long Term Obligations (continued)

Principal payments on the debenture over the next five fiscal years are as follows: 2008 - $130; 2009 - $137; 2010 - $146; 2011 - $154; 2012 - $164.

The asset retirement obligation represents the estimated fair value of the legal obligation associated with the removal of asbestos from University Hall. Costs expected to be incurred over the next five fiscal years are: 2008 - $300; 2009 - $250; 2010 - $250; 2011 - $220; 2012 - $65.

The estimate of the liability requires judgment by University management as to the amount of work required to remove the asbestos, the cost of the work and inflationary increases over the term of the obligation.

The asset retirement cost will be allocated to expense as the asbestos is removed from the building. Further costs of removing asbestos cannot be reasonably estimated at this time, but will be recorded in the period in which there is sufficient information to estimate fair value.

Note 12 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the unamortized grants and donations received to fund capital acquisitions. The amortization of unamortized deferred capital contributions is recorded as revenue in the statement of operations. The changes in the unamortized deferred capital contributions balance are as follows:

	2007	2006
Balance, beginning of year	$ 91,103	$ 84,437
Additions from deferred contributions (Note 10)	14,785	12,700
Amortization to revenue	(6,271)	(6,034)
Balance, end of the year	$ 99,617	$ 91,103

Note 13 Endowments

Endowments consist of:

- Internal allocations by the Board of Governors (internally restricted).
- Restricted donations to the University - the principal must be maintained intact in perpetuity (externally restricted).

The investment income earned on internally restricted endowments is used to fund the University of Lethbridge Scholarship Endowment and the International Entrance Award as directed by Board of Governors resolutions. The purpose of the internally restricted endowments cannot be changed without approval of the Board of Governors.

Investment income earned on endowments must be used in accordance with the various purposes established by the donors or the Board of Governors.

On April 1, 2006 the University adopted an Endowment management policy. For the current and future years, the economic value of the endowments is protected by limiting the amount of investment income that may be spent to 5% of the prior year's endowment balance, except as otherwise stipulated by the donor. Investment income earned in excess of the amount spent is added to the endowment principal. In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, or should the investment turn to negative, the spending allocation is funded from the cumulative capitalized earnings. However, for individual endowment funds without sufficient cumulative capitalized earnings, endowment capital is used in the current year. This amount is expected to be

Note 13 Endowments (continued)

recovered from future investment income. For years prior to 2007 endowment spending was limited to the amount of realized investment earnings.

Under the *Post-Secondary Learning Act*, the University has the authority to alter the terms and conditions of an endowment to enable income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.

	2007			2006		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Contributions received during the year	$ 8,825	$ -	$ 8,825	$ 1,292	$ -	$ 1,292
Capitalization of previous year's unexpended balance	1,375	144	1,519	-	-	-
Transfers	17	36	53	-	-	-
Capitalized investment earnings	477	-	477	274	122	396
Increase during the year	10,694	180	10,874	1,566	122	1,688
Balance, beginning of year	12,147	1,516	13,663	10,581	1,394	11,975
Balance, end of year	$ 22,841	$ 1,696	$ 24,537	$ 12,147	$ 1,516	$ 13,663
Cumulative contributions	$ 18,810	$ 1,342	$ 20,152	$ 9,958	$ 1,342	$ 11,300
Cumulative capitalized earnings	4,031	354	4,385	2,189	174	2,363
	$ 22,841	$ 1,696	$ 24,537	$ 12,147	$ 1,516	$ 13,663

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of dollars)

Note 14 Internally Restricted Net Assets

Internally restricted net assets represent amounts set aside by the Board of Governors for specific needs such as one-time expenditures for increasing efficiency, reducing costs, construction or providing for contingencies.

	2007	2006
OPERATING		
Staff training and development	$ 27	$ 31
Academic development	238	242
Campus planning studies	160	160
Utilities contingency - rate increases	55	55
Program development	295	235
	775	723
CAPITAL		
Capital replacement - Ancillary Services	3,165	2,176
Capital replacement - Sports & Recreation Services	-	245
Housing Services - residences	698	895
Capital equipment	1,110	1,508
Buildings and plant [1]	11,237	10,353
Site and utilities	72	71
Utility conservation	275	270
Self insurance	232	195
Parking	97	-
Service vehicles and equipment	97	105
	16,983	15,818
	$ 17,758	$ 16,541

(1) The Board of Governors set aside $10,700 for funding of capital projects in 2007 (2006: $10,000).

Note 15 Investment Income

	2007	2006
Income on investments held for endowment		
Externally restricted	$ 862	$ 715
Internally restricted	84	76
	946	791
Income on other investments	5,884	3,204
Total investment income	6,830	3,995
Amounts allocated to deferred contributions	(88)	(235)
Income capitalized to endowment principal	(477)	(274)
Total investment income recognized as revenue	$ 6,265	$ 3,486

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of dollars)

Note 16 Salaries and Employee Benefits

A Treasury Board Directive under the Financial Administration Act of the Province of Alberta requires the disclosure of certain salary and employee benefit information.

	2007				2006
	Base Salary [1]	Other Cash Benefits [2]	Other Non-Cash Benefits [3]	Total	Total
Chairman of Board [4]	$ -	$ -		$ -	$
Board Members [4]	-	-		-	
President	293	30	88	411	403
Executive/Vice Presidents					
Vice-President (Academic)	252	12	58	322	307
Vice-President (Finance & Administration)	207	-	45	252	240
Vice-President (Research)	175	-	39	214	205
Vice-President (University Advancement) [5]	137	-	34	171	117
Administrative leave benefit [7]					
President				63	106
Vice-President (Academic)				71	98
Vice-President (Finance & Administration)				24	74
Vice-President (Research)				39	56
Vice-President (University Advancement) [8]				-	-

[1] Salary includes pensionable base pay.

[2] Housing allowance

[3] Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, extended health benefits, group life insurance, long term disability plans, professional memberships, supplementary benefit plan (as per note 6 below) and professional supplement allowance.

[4] The Chairman and members of the Board of Governors receive no remuneration for participation on the Board.

[5] The position was vacant for a four-month period in the prior year.

Note 16 Salaries and Employee Benefits (continued)

(6) Under the terms of the supplementary benefit plan (SBP), certain senior executive officers will receive supplemental retirement payments. The costs detailed below are not cash payments in the period but are period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide a payment at termination of employment with the University. The SBP is a defined contribution plan. The University contributes annually to the SBP based on the employee's salary and this benefit earns interest at the annual realized rate of return on the University's long-term investments. The interest accrued on benefit obligations is equal to the realized earnings rate on the University's long-term investments of 4.71% in 2007 (2006 - 5.75%).

	2007			2006
	Current Service Cost	Interest Accrued	Total	Total
Chairman of Board	$ -	$ -	$ -	$ -
President	46	7	53	65
Executive/Vice Presidents				
Vice President (Academic)	19	6	25	24
Vice President (Finance & Administration)	9	2	11	10
Vice President (Research)	6	1	7	6
Vice President (University Advancement)	2	-	2	1

(7) Administrative leaves are accrued for certain executive officers at a rate of one month for every five months served. If the leave is granted, all salaries and benefits excluding any housing allowances are paid on a monthly basis over the duration of the leave. Cash payments in lieu of administrative leave are not permitted, nor is it possible under Board policy to work for another institution or organization while on leave. Normally, administrative leave is taken immediately after leaving office. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service, a discount rate based on market interest rates and management's best estimates of salary and benefit increases to the assumed retirement or termination date. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. The amounts shown include current and prior service costs.

(8) The position does not accrue administrative leave.

The accrued obligation for each executive under the SRP is outlined in the following table:

	Accrued obligation March 31, 2006	Changes in accrued obligation	Accrued obligation March 31, 2007
Chairman of Board	$ -	$ -	$ -
President	130	54	184
Executive/Vice Presidents			
Vice President (Academic)	119	25	144
Vice President (Finance & Administration)	37	11	48
Vice President (Research)	21	7	28
Vice President (University Advancement)	1	2	3

Note 17 Change in Non-Cash Working Capital

	2007	2006
Accounts receivable	$ (2,350)	$ (475)
Inventories	(15)	44
Prepaid expenses	(122)	(71)
Accounts payable and accrued liabilities	2,418	1,909
Employee benefit liabilities	(549)	245
Deferred revenue	434	(441)
Deferred contributions	2,809	(1,687)
Deferred contributions - endowment transfer (Note 13)	1,519	-
Increase (decrease) in non-cash working capital	$ 4,144	$ (476)

Note 18 Related Party Transactions

The University of Lethbridge is a Provincial Corporation as all members of the Board of Governors are appointed either by statute or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the University and the Province of Alberta are disclosed as follows:

	2007	2006
Advanced Education and Technology	92,892	77,344
Alberta Innovation and Science	1,038	3,356
Alberta Heritage Foundation for Medical Research	590	608
Alberta Cancer Board	321	-
Alberta Gaming	410	333
Education	119	90
Alberta Children's Services	-	142
Other	374	282
Total contributions received	95,743	82,155
Less: Deferred contributions	(17,151)	(13,871)
Revenue from provincial government	$ 78,593	$ 68,284

Restricted grants are recognized as revenue in the period in which the related expenses are incurred.

The University of Lethbridge has accounts receivable from the Province of Alberta of $2,839 (2006 - $1,714).

In 2007 and 2006 the University participated in offering certain courses with other public colleges, universities and institutes. The revenues and expenses incurred for these courses have been included in the statement of operations but have not been separately disclosed.

The University owns 90% of the common shares in Alberta Terrestrial Imaging Corp. (ATIC), a company formed in June 2005 to provide satellite imagery to Canadian academic markets. The University has one-third of the voting control of ATIC and accounts for its investment in the company using the equity method. At March 31, 2007 the University had a loan receivable from ATIC of $533 (2006 - $208) resulting from paying certain operating expenses on ATIC's behalf, and owed contributions of $100 (2006 - $75) to ATIC toward its start-up costs. University management has determined that $220 of this receivable may not be recoverable and has adjusted the receivable accordingly. These amounts are included in the University's statement of financial position as accounts

Note 18 Related Party Transactions (continued)

receivable and accounts payable, respectively. For the year ended March 31, 2007, ATIC had a net loss of $299 (2006 - $139) and a net shareholders deficit of $288.

Note 19 Scholarships and Bursaries

In addition to the amount recognized, scholarships and bursaries totalling $2,122 (2006 - $2,176) were awarded to 1,577 (2006 - 1,560) University of Lethbridge students through the Alberta Scholarship Program. These amounts are not included in the financial statements.

Note 20 Commitments and Contingencies

a) The University, in the conduct of its normal activities, is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be reasonably estimated at this time, the University believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the University. Administration has concluded that none of the claims meet the criteria for being recorded under GAAP.

b) The University is one of fifty-six members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2006 CURIE had a surplus of $16,507 (2005 - $11,175). This surplus is an accumulation of four different underwriting periods. The University participates in three of these underwriting periods, which have an accumulated surplus of $13,517 as of December 31, 2006 (2005 - $8,372). The University held a 1.03% share in CURIE at December 31, 2006 and this is not recorded in the financial statements.

c) The University leases teaching facilities in Edmonton and Calgary. In fiscal 2007 basic rent on the property in Edmonton totalled $90 (2006 - $90), and occupancy costs were $130 (2006 - $98). A renewable five-year lease on this property begins July 1, 2007. The new lease includes a 46% increase in the amount of space rented due to expansion requirements. Under the new lease, annual basic rent will start at $122 and increase by 3% each year thereafter, and occupancy costs will start at $180 and increase at a rate of 5% per year. The lease in Calgary is negotiated each year. In fiscal 2007 the lease costs on facilities in Calgary totalled $101 (2006 - $102). Lease costs are expected to increase to $142 in 2008 due to rising rental costs and additional space requirements.

d) In order to manage its exposure to the volatility in the electrical industry, the University has entered into two contracts to fix its electrical cost at an average of $.055 per KWh, one of which expires on December 31, 2010 and the other on May 31, 2016. The total cost of electrical power for the year ending March 31, 2008 is expected to be $1,571. The cost of electricity included in these statements for fiscal 2007 is $1,569 (2006 - $1,846).

e) As at March 31, 2007, the University had contractual commitments payable in subsequent years that total $12,064 (2006 - $18,179) related to various capital projects. The most significant of these commitments are for the Turcotte Hall addition ($4,525), the service buildings replacement ($2,385), the Markin Building for Health Sciences and Management ($1,769) and the Alberta Water and Environmental Science building ($1,305). These commitments are not recorded in the financial statements.

f) Under agreements and/or contracts with a number of employee groups, the University provides Professional Supplement funds for activities related to teaching, research, professional development or general University-related duties. At March 31, 2007 approximately $1,211 (2006 - $881) of such allowances is committed for expenses not yet incurred.

Note 21 **Deferred Maintenance**

Deferred maintenance on University facilities is estimated at $113,223 based on a facility condition audit completed by the University in 2006. A liability for deferred maintenance is not included in these financial statements.

Note 22 **Comparative Figures**

Certain 2006 figures have been reclassified to conform to 2007 financial statement presentation.

Note 23 **Approval of Financial Statements**

These financial statements have been approved by the Board of Governors following the recommendation of the Audit Committee.

THE BANFF CENTRE FOR CONTINUING EDUCATION

Financial Statements

For the year ended March 31, 2007

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Operations and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

Deloitte

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Auditors' Report

To The Board of Governors of
The Banff Centre for Continuing Education:

We have audited the statements of financial position of **The Banff Centre for Continuing Education** as at March 31, 2007 and 2006 and the statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
June 8, 2007

THE BANFF CENTRE FOR CONTINUING EDUCATION

Statements of Financial Position

As at March 31, 2007 and 2006

(in thousands of dollars)

	2007	2006
Assets		
Current		
Cash	$ 317	$ 1,027
Short-term investments (Note 4)	24,761	1,002
Accounts receivable	3,420	3,294
Pledges receivable	2,244	1,251
Inventories	385	418
Prepaid expenses	280	189
	31,407	7,181
Notes receivable and deferred charge (Note 3)	693	699
Long-term pledges receivable	9,094	865
Investments, at cost (Note 4)	10,371	8,142
Capital assets and collections (Note 5)	68,543	53,479
	$ 120,108	$ 70,366
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	$ 2,803	$ 1,751
Accrued vacation pay	1,257	1,188
Unearned revenue and deposits (Note 6)	1,690	1,085
Deferred contributions (Note 7)	2,929	3,728
Current portion of long-term debt (Note 8)	2,642	3,147
	11,321	10,899
Long-term debt (Note 8)	1	3
Employment related liabilities	344	253
Long-term deferred contributions (Note 7)	32,946	2,461
Deferred expended capital contributions (Note 9)	51,334	36,133
	95,946	49,749
Net assets		
Operating net assets (Note 10)	13,791	12,475
Endowment (Note 11)	10,371	8,142
	24,162	20,617
	$ 120,108	$ 70,366

The accompanying notes are an integral part of these financial statements.

THE BANFF CENTRE FOR CONTINUING EDUCATION

Statements of Operations and Changes in Net Assets

Years Ended March 31, 2007 and 2006

(in thousands of dollars)

	2007	2006
Revenue		
Accommodations	$ 13,703	$ 14,241
Grants (Note 13)	15,822	16,131
Other sales, rentals and services	6,964	7,093
Tuition and related fees	5,252	5,464
Donations and other contributions	3,782	3,010
Investment income	528	368
Amortization of deferred expended capital contributions	1,294	1,343
	47,345	47,650
Expense		
Salaries, wages and benefits (Note 14)	25,223	24,296
Purchased services	2,695	2,876
Materials, goods and supplies	4,169	4,160
Scholarships and financial assistance	3,740	3,807
Facility operations and maintenance	2,190	3,332
Utilities	1,504	1,637
Travel, training and related costs	1,596	1,680
Rentals and equipment	1,183	1,073
Marketing and promotion	666	582
Financial costs	526	564
Amortization of capital assets	2,511	2,491
Loss on disposal of capital assets	-	8
	46,003	46,506
Excess of revenue over expense	1,342	1,144
Internally designated funds for endowment and capital acquisitions	(141)	-
Excess of revenue over expense, net of transfers	1,201	1,144
Net assets at beginning of year	20,617	18,327
Endowment contributions and other transfers	1,539	967
Endowment earnings retained in the fund	690	179
Internally designated funds for capital acquisitions	115	-
Net assets at end of year	$ 24,162	$ 20,617

The accompanying notes are an integral part of these financial statements.

THE BANFF CENTRE FOR CONTINUING EDUCATION

Statements of Cash Flows

Years Ended March 31, 2007 and 2006

(in thousands of dollars)

	2007	2006
Cash flows from (used in) operating activities		
Excess of revenue over expense	$ 1,342	$ 1,144
Non-cash transactions:		
Amortization of deferred expended capital contributions	(1,294)	(1,343)
Amortization and loss on disposal of capital assets	2,511	2,499
Change in notes receivable and deferred charge	6	-
Change in long-term employment related liabilities	91	-
Changes in:		
Non-cash working capital (Note 12)	1,542	(1,607)
Pledges receivable - operating	188	(339)
Non-capital deferred contributions	29	1,354
Net cash from operating activities	4,415	1,708
Cash flows from (used in) investing activities		
Acquisition of capital assets	(17,466)	(4,754)
Addition to long-term notes receivable	-	(200)
Endowment earnings retained in the fund	690	179
(Acquisition) disposition of short-term investments	(23,759)	21
Acquisition of long-term investments	(2,229)	(1,146)
Net cash used in investing activities	(42,764)	(5,900)
Cash flows from (used in) financing activities		
Capital contributions	46,152	3,830
Pledges receivable - capital and other	(9,409)	(689)
Debt principal repayments	(618)	(360)
Endowment contributions	1,514	967
Net cash from financing activities	37,639	3,748
Decrease in cash	(710)	(444)
Cash at beginning of year	1,027	1,471
Cash at end of year	$ 317	$ 1,027

The accompanying notes are an integral part of these financial statements.

Note 1 Authority and Purpose

The Banff Centre for Continuing Education (the "Centre") operates under the authority of the Post-Secondary Learning Act, 2003, Chapter P-19.5. The Centre is a registered charity and is exempt from income tax under Section 149 of the Income Tax Act.

The Centre provides public access to a broad range of learning and professional development experiences with emphasis on the arts, leadership development, and the exploration of issues related to mountain culture and the environment.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and the following significant accounting policies and reporting practices:

(a) Revenue Recognition

Amounts received for tuition, fees, and sales of goods and services are classified as unearned and recognized as revenue at the time the goods are delivered or the services are provided.

The Centre follows the deferral method of accounting for contributions.

Operating grants are recognized as revenue in the period when receivable. Operating grants received for a future period are deferred until that future period.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for the purposes designated by external parties.

Any externally restricted contributions containing stipulations that the amounts and related earnings be retained as net assets or that the contributions not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to acquire non-amortizable property.

Externally restricted capital contributions are recorded as deferred contributions until the amounts are invested in capital assets. External funds invested in capital assets are then transferred to deferred expended capital contributions. Deferred expended capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital assets is recorded. The related portions of amortization expense and capital contributions revenue are matched to indicate that the amortization expense has been funded externally.

Unrestricted contributions are recognized as revenue when received.

Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

(b) Scholarships and Financial Assistance

Scholarships and financial assistance include payments to resident artists and program participants for tuition, fees, accommodation and other program related costs.

(c) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at the lower of cost and replacement value.

(d) Pledges Receivable

Pledges receivable are recorded as assets when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

(e) Long-term Investments

Long-term investments are recorded at cost. Gains and losses are recognized when investments are sold or when there is a permanent impairment in their value.

(f) Capital Assets

Capital assets are recorded at cost, except donated assets, which are recorded at fair value. Capital assets, except property under development and the artwork collection, are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	20 years
Buildings and improvements	50 years
Furnishings and equipment	10 years
Technical equipment	5 years

The useful lives have been estimated by management and will inevitably differ from actual, perhaps significantly, resulting in amortization expense not matching utilization over the lives of the assets. No amortization expense is recorded in the year of acquisition.

Artworks are recorded at cost if purchased or at the appraised value at the time of donation. Artworks are not amortized. The artwork collection is made up of numerous pieces of art that are held for display in the Walter Phillips Gallery and other public areas of the Centre.

(g) Employee Future Benefits

The Centre's pension plans are multi-employer plans and are accounted for using the defined contribution method. Under this method, contributions made during the period are recognized as pension expense to current operations and included in salaries, wages and benefits.

(h) Use of Estimates

These financial statements are prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

(i) Accounting Changes

The Centre is required to disclose the issuance of new accounting standards that have been issued but are not yet effective as of the balance sheet date. As of April 1, 2007, the Centre adopted the recently issued accounting standards "Financial Instruments - Recognition and Measurement" (CICA Handbook Section 3855) and "Hedges" (Section 3865), both of which must be adopted for fiscal years beginning on or after October 1, 2006.

Similarly, the accounting standards "Financial Instruments Disclosures" (Section 3862) and "Financial Instruments Presentation" (Section 3863) must be adopted for fiscal years beginning on or after October 1, 2007. The Centre will adopt these standards on April 1, 2008. The effect on the Centre's financial statements will be to report certain investments at market value and to include additional disclosures in the footnotes regarding the significance of financial instruments to the Centre's financial position and performance; and the nature, extent and management of risks arising from those financial instruments.

Note 3 Notes Receivable and Deferred Charge

During 2001, the Centre advanced $472,800 to Rocky Mountain Cooperative Housing Association (the "Cooperative") for the right to lease 12 accommodation units. An additional $200,000 was advanced in April 2005 for the right to lease another 30 accommodation units through December 2019. In December 2005, the terms of the notes were modified to discontinue accrual of interest (interest accrued to that date totaled $26,037). The notes are unsecured, repayable in 2019. The total of all commitments under these operating leases of $7,350,882 is included in Note 8.

The notes receivable are discounted to a present value of $375,496 using an interest rate of 4.68% which approximates the external borrowing rate of the Cooperative. The deferred charge of $291,222 is amortized over the lease period.

Note 4 Investments

Short-term

Short-term investments include money market funds, Treasury Bill funds and Guaranteed Investment Certificates, the market value of which approximates the carrying value reflected on the financial statements.

Long-term

	2007		2006	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	$ 567	$ 567	$ 273	$ 273
Government debt	698	721	1,615	1,619
Corporate debt	2,777	2,787	1,850	1,853
Equities	6,756	7,883	4,886	6,108
	10,798	$ 11,958	8,624	$ 9,853
Endowment earnings and other receivables	(427)		(482)	
	$ 10,371		$ 8,142	

Note 5 Capital Assets and Collections

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land improvements	$ 2,722	$ 2,224	$ 498	$ 2,723	$ 2,169	$ 554
Buildings and improvements	74,405	32,650	41,755	74,109	31,183	42,926
Furnishings and equipment	23,747	18,726	5,021	23,539	18,444	5,095
Artwork collection	1,171	-	1,171	1,164	-	1,164
Property under development	20,098	-	20.098	3,740	-	3,740
	$ 122,143	$ 53,600	$ 68,543	$ 105,275	$ 51,796	$ 53,479

Land is leased from the Government of Canada The current lease expires on July 31, 2043, and is renewable.

Note 6 Unearned Revenue and Deposits

	2007	2006
Accommodation deposits	$ 1,146	$ 549
Other sales and services	544	536
	$ 1,690	$ 1,085

Note 7 Deferred Contributions

	2007	2006
Deferred contributions at beginning of year	$ 6,189	$ 4,594
Contributions:		
Operating	1,318	3,569
Capital and other	46,152	3,830
Endowment earnings	421	482
Transferred to operations:		
Grants and contributions	(1,392)	(2,397)
Endowment earnings utilized	(318)	(299)
Transferred to deferred expended capital contributions (Note 9)	(16,495)	(3,590)
Deferred contributions at end of year	$ 35,875	$ 6,189

	2007	2006
Deferred contributions are comprised of:		
Capital and other	$ 31,943	$ 2,286
Non-capital	3,932	3,903
	35,875	6,189
Less: current portion of non-capital deferred contributions	(2,929)	(3,728)
Long-term portion of deferred contributions	$ 32,946	$ 2,461

Note 8 Long-Term Debt and Commitments

	2007	2006
Term loan - Professional Development Centre	$ 2,640	$ 2,912
Capital leases	3	238
	2,643	3,150
Less: debt due within one year	(2,642)	(3,147)
Long-term debt	$ 1	$ 3

Future expected minimum repayments are as follows:

Year Ending March 31	Professional Development Centre	Capital Leases		Operating Leases
		Principal	Interest	
2008	$ 2,640	$ 2	$ -	$ 1,239
2009	-	1	-	920
2010	-	-	-	682
2011	-	-	-	641
2012	-	-	-	635
thereafter	-	-	-	4,585
	$ 2,640	$ 3	$ -	$ 8,702

The term loan is unsecured with fixed principal repayments of $275,000 per annum until the renewal date on December 17, 2007, at an interest rate of 4.09%. Under certain circumstances, the lender has the right to demand immediate repayment. Accordingly, all amounts outstanding under this loan have been classified as a current liability. The Banff Centre intends to renew the loan in December 2007 on similar terms.

Interest expense on long-term debt for the years ended March 31, 2007 and 2006 was $130,264 and $133,343, respectively. Interest expense approximates interest paid for both fiscal years.

In July 2004, the Centre entered into a long-term supply arrangement with an electrical utility company for its electrical power needs for the period January 1, 2006 to January 1, 2011 at a rate of $0.0469/kwh.

In prior years the Centre advanced $672,800 to Rocky Mountain Cooperative Housing Association in exchange for the right to lease accommodation units through December 2019.

During 2006 the Centre began construction of new facilities as part of a phased redevelopment project expected to be completed in 2009. The Centre entered into contracts totaling $16.3 million to construct and equip a new dining facility which will be operational in July 2007. Planning is also underway to construct a new Learning Centre. Funding for these projects will include $50 million from Alberta Advanced Education ($38 million of which has been received) and other public and private donations to be raised during the Centre's capital campaign.

Note 9 Deferred Expended Capital Contributions

	2007	2006
Balance at beginning of year	$ 36,133	$ 33,888
Transferred from deferred contributions to acquire capital assets (Note 7)	16,495	3,590
Reduction upon retirement of capital assets	-	(2)
Transferred to revenue	(1,294)	(1,343)
Balance at end of year	$ 51,334	$ 36,133

Note 10 Operating Net Assets

	Unrestricted	Investment in Capital Assets	2007	2006
Balance at beginning of year	$ (1,712)	$ 14,187	$ 12,475	$ 11,331
Excess of revenue over expense, net of transfers	1,201	-	1,201	1,144
Internally designated funds for capital acquisitions	115	-	115	-
Internally funded:				
Capital acquisitions	(974)	974	-	-
Amortization	1,217	(1,217)	-	-
Repayment of debt	(618)	618	-	-
Balance at end of year	$ (771)	$ 14,562	$ 13,791	$ 12,475

Note 11 Endowment

	2007	2006
Endowment book value at beginning of year	$ 8,142	$ 6,996
Contributions and other transfers	1,539	967
Realized earnings	1,111	661
Distribution of earnings available for spending	(421)	(482)
Endowment book value at end of year	$ 10,371	$ 8,142

Through March 2007 the Centre has transferred $1,634,667 of endowment contributions ($924,551 in 2006) to the Banff Community Foundation (the "Foundation") in accordance with the terms of an application for matching funds from Canadian Heritage under the Endowment Incentives program. These contributions and any matching funds will be held by the Foundation and managed as a permanent endowment for the sole benefit of the Centre. The book value of funds held by the Foundation, including matching funds, is $2,377,751 at March 31, 2007. The Foundation is a public charitable foundation which is not controlled by the Centre.

Note 12 Changes in Non-Cash Working Capital

	2007	2006
Changes in:		
Accounts receivable	$ (126)	$ (179)
Inventories	33	4
Prepaid expenses	(91)	(47)
Accounts payable and accrued liabilities	1,052	(530)
Accrued vacation pay	69	41
Unearned revenue and deposits	605	(896)
	$ 1,542	$ (1,607)

Note 13 Grants

	2007	2006
Base operating grant: Alberta Advanced Education	$ 12,845	$ 12,118
Other grants:		
Province of Alberta		
Advanced Education	554	1,447
Innovation and Science	387	241
Community Development and Other	95	110
Government of Canada - Canadian Heritage		
National Arts Training Contribution Program	1,340	1,340
Canadian Culture On-Line Program	15	50
Arts Presentation Canada Program	100	100
Museum Assistance Program	49	7
Urban Multipurpose Aboriginal Youth Centre Initiative	-	20
Book Publishing Industry Development Program	2	10
Other Government	435	688
	2,977	4,013
	$ 15,822	$ 16,131

Note 14 Salaries, Wages and Benefits

	2007	2006
Pension contributions	$ 1,178	$ 1,105
Salaries, wages and non-pension benefits	24,045	23,191
	$ 25,223	$ 24,296

Note 15 Salary Disclosure

The salaries and benefits of the Board of Governors and senior management are as follows:

	2007			2006
	Salaries (1)	Non-Cash Benefits (2)	Total	Total
Board of Governors (3)	$ -	$ -	$ -	$ -
President	247	35	282	268
Vice-Presidents				
Programming	144	27	171	127
Finance	179	26	205	190
Hospitality & Conferences	149	19	168	162
Mountain Culture (4)	46	6	52	139
	$ 765	$ 113	$ 878	$ 886

(1) salaries include regular base pay and other direct cash remuneration

(2) non-cash benefits include the Centre's share of all employee benefits and payments made on behalf of employees including pension, health care, insurance and disability plans, tuition benefits, and taxable benefits for the use of Banff Centre residences and vehicles

(3) the Chair and members of the Board of Governors receive no remuneration for their services

(4) reflects a part-year appointment in fiscal year 2006-07

Note 16 Financial Instruments

Financial instruments are comprised of cash, short-term investments, accounts receivable, notes receivable, pledges receivable, accounts payable and accrued liabilities, accrued vacation pay, employment related liabilities and long-term debt including obligations under capital leases. The carrying amounts of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short-term maturity. The carrying values of the notes receivable also approximate fair value. In management's opinion the fair value of debt obligations do not differ significantly from their carrying values, as the Centre would be able to refinance these obligations under similar terms and conditions as currently exist.

Credit risk - The Centre's accounts receivable and pledges receivable are subject to credit risk due to the nature of the Centre's customers and donors. The carrying value of accounts receivable and pledges receivable reflects management's assessment of the credit risk associated with these customers and donors.

Note 17 Budget

The following represents the Centre's operating budget for the fiscal year ended March 31, 2007.

Revenue		
Accommodations	$	14,003
Grants		15,083
Other sales, rentals and services		6,824
Tuition and related fees		5,361
Donations and other contributions		4,032
Investment income		372
Amortization of deferred expended capital contributions		1,343
		47,018
Expense		
Salaries, wages and benefits		25,776
Purchased services		2,814
Materials, goods and supplies		4,351
Scholarships and financial assistance		3,722
Facility operations and maintenance		2,054
Utilities		1,889
Travel, training and related costs		1,711
Rentals and equipment		1,091
Marketing and promotion		677
Interfund transfers		(164)
Financial costs		606
Amortization of capital assets		2,491
		47,018
Excess of revenue over expense	$	-

Note 18 Prior Year Figures

Certain prior year figures have been reclassified to conform to the current year presentation.